

MARSHALL ISLANDS HEALTH FUND
(A GOVERNMENTAL FUND OF THE
REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2011 and 2010

MARSHALL ISLANDS HEALTH FUND

Years Ended September 30, 2011 and 2010
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INDEPENDENT AUDITORS' REPORT

Honorable David Kabua
Minister of Health
Republic of the Marshall Islands:

We have audited the accompanying balance sheets of the Marshall Islands Health Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), as of September 30, 2011 and 2010 and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

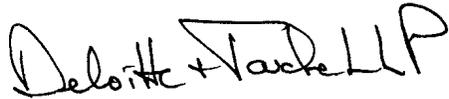
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Marshall Islands Health Fund and are not intended to present fairly the financial position and results of operations of the Republic of the Marshall Islands in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Marshall Islands Health Fund, a governmental fund of the Republic of the Marshall Islands, as of September 30, 2011 and 2010, and the results of that fund's operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Fund adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2012, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

July 6, 2012

MARSHALL ISLANDS HEALTH FUND

Balance Sheets
September 30, 2011 and 2010

	<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Cash		\$ 847,925	\$ 523,996
Receivables:			
Contributions		1,231,014	1,226,992
Affiliate		1,409,802	1,622,847
Employees		6,652	2,442
		<u>2,647,468</u>	<u>2,852,281</u>
Prepayments		<u>44,750</u>	<u>44,750</u>
		<u>\$ 3,540,143</u>	<u>\$ 3,421,027</u>
 <u>LIABILITIES AND FUND BALANCE</u> 			
Liabilities:			
Accounts payable		\$ 837,506	\$ 439,835
Payable to affiliates		<u>816,972</u>	<u>935,954</u>
Total liabilities		<u>1,654,478</u>	<u>1,375,789</u>
Contingency			
Fund balance:			
Non-spendable:			
Prepaid amounts		44,750	44,750
Committed for:			
Health services		<u>1,840,915</u>	<u>2,000,488</u>
		<u>1,885,665</u>	<u>2,045,238</u>
Total liabilities and fund balance		<u>\$ 3,540,143</u>	<u>\$ 3,421,027</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2011 and 2010

	2011	2010
Revenues:		
Basic Health Fund collections	\$ 6,556,447	\$ 6,482,344
Supplemental Health Fund collections	610,488	663,402
Other	25,256	28,760
Total revenues	7,192,191	7,174,506
Expenditures:		
Off-island care	2,046,157	1,516,085
Off-island travel	609,598	456,469
Other medical charges	201,682	203,995
Professional and consulting fees	179,000	134,250
Administrative:		
Salaries and wages	302,933	310,951
Collection fees	200,000	200,000
Travel	73,211	42,244
Utilities	40,046	38,397
Professional fees	20,000	20,000
Communications	12,846	15,532
Insurance	12,061	14,711
Repairs and maintenance	10,199	12,861
Other administrative charges	42,200	38,003
Total expenditures	3,749,933	3,003,498
Excess of revenues over expenditures	3,442,258	4,171,008
Other financing uses:		
Contributions to RepMar's Health Care Revenue Fund	(3,601,831)	(3,715,375)
Net change in fund balance	(159,573)	455,633
Fund balance at beginning of year	2,045,238	1,589,605
Fund balance at end of year	\$ 1,885,665	\$ 2,045,238

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2011 and 2010

(1) Reporting Entity

The Marshall Islands Health Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Marshall Islands Health Fund Act of 2002. The Fund was established to provide, pay, or reimburse all or a determined portion of the cost of basic health care obtained at a local health care facility, or as an approved off-island medical referral, or as emergency off-island medical care.

The accompanying financial statements relate solely to those accounting records maintained by the Fund, and do not incorporate any accounts related to RepMar's Ministry of Health or any other departments or agencies of RepMar that may be accounted for by RepMar's Treasury. The Fund is considered to be a blended component unit (governmental fund type - special revenue fund) of RepMar and is governed by a seven-member Board.

(2) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fund's accounting policies are described below.

Measurement Focus and Basis of Accounting

The Fund reports its financial position and the results of operations in one governmental fund. A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred. Significant revenues susceptible to accrual include quarterly contributions from employers and employees as well as premiums for health benefit plans collected by the Ministry of Health.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Budget

An annual appropriated budget has not been formally adopted on a legal basis or a basis consistent with GAAP. Accordingly, a budget to actual presentation is not required or presented.

Cash

The deposit and investment policies of the Fund are governed by 3 MIRC 7, *Investments of Public Funds*, and 11 MIRC 1, *Financial Management*. Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Fund does not have a deposit policy for custodial credit risk.

For the purposes of the balance sheets, cash is defined as cash in checking and savings accounts. As of September 30, 2011 and 2010, the carrying amounts of the Fund's total cash was \$847,925 and \$523,996, respectively, and the corresponding bank balances were \$808,204 and \$614,594, respectively. Of the bank balances, \$782,433 and \$560,996, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, bank deposits in the amount of \$250,000 were FDIC insured. The Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

Contributions receivable are due from the Marshall Islands Social Security Administration (MISSA), which collects contributions from employers located within the Republic of the Marshall Islands for the benefit of the Fund for a fixed fee of \$200,000 per year effective from October 1, 2009.

Compensated Absences

The Fund recognizes expenditures for annual leave and sick leave when leave is actually taken. Accordingly, unused annual leave and sick leave are not included as an obligation within the balance sheet unless such leave is expected to be liquidated with expendable available financial resources, at which time expenditures and related fund liabilities would be recognized.

Fund Balance

During fiscal year 2011, the Fund implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with GASB Statement No. 54, governmental fund balances are classified as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Fund Balance, Continued

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. In addition, committed, then assigned, and lastly unassigned amounts of unrestricted fund balance are expended in that order.

A formal minimum fund balance policy has not been adopted.

Taxes

The Government of RepMar imposes gross receipts tax of 3% on revenues. The Fund is specifically exempt from this tax.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

During fiscal year 2011, the Fund implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

(3) Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(4) Related Party Transactions

The Fund is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. The Health Care Revenue Fund is a governmental fund of RepMar established by the Nitijela for the purchase of drugs, medical supplies and equipment and the provision and administration of other health services. Receivables from and payables to affiliates as of September 30, 2011 and 2010, are as follows:

	2011		2010	
	Receivables	Payables	Receivables	Payables
RepMar:				
Health Care Revenue Fund	\$ -	\$ 801,851	\$ -	\$ 918,083
General Fund	3,606	1,729	3,606	2,230
MISSA	<u>1,406,196</u>	<u>13,392</u>	<u>1,619,241</u>	<u>15,641</u>
	<u>\$ 1,409,802</u>	<u>\$ 816,972</u>	<u>\$ 1,622,847</u>	<u>\$ 935,954</u>

Receivable from MISSA represent contributions collected by MISSA unremitted to the Fund at September 30, 2011 and 2010.

Contributions to RepMar's Health Care Revenue Fund during the years ended September 30, 2011 and 2010 were \$3,601,831 and \$3,715,375, respectively, representing 55% of collections of the Basic Health Benefits Plan. Payables to RepMar's Health Care Revenue Fund represent unremitted contributions at September 30, 2011 and 2010.

(5) Contingency

The Fund receives substantially all of its funding from MISSA through collections of the Fund's Basic Health Benefits Plan. A significant reduction in the level of this funding, if this were to occur, may have an effect on the Fund's programs and activities.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable David Kabua
Minister of Health
Republic of the Marshall Islands:

We have audited the financial statements of the Marshall Islands Health Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2011, and have issued our report thereon dated July 6, 2012. Our report includes an explanatory paragraph that the financial statements of the Fund are not intended to present the financial position and results of operations of RepMar and a reference for the adoption of a new accounting standard. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (pages 12 and 13), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2011-2 to be material weaknesses.

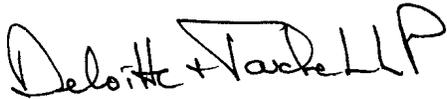
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of Findings and Responses as item 2011-1.

We also noted certain matters that we reported to management of the Fund in a separate letter dated July 6, 2012.

The Fund's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Fund's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Ministry of Health and RepMar management and is not intended to be and should not be used by anyone other than these specified parties.

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July 6, 2012

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses Year Ended September 30, 2011

Finding 2011-1

Local noncompliance

Criteria: In accordance with Section 211 of the Marshall Islands Health Fund Act of 2002, the Health Fund shall transfer 2.5% and 7.5% out of the 45% Basic Health Fund collection, for domestic medical referral and outer island primary health care, respectively. The remainder of the Fund shall be utilized for (i) the payment of benefits; (ii) the repayment of any legitimate loans; (iii) the costs and expenses of the administration of the Fund under this Act; and (iv) for improving primary health care.

Condition: During fiscal year 2011, the Fund's expenditure for domestic medical referrals exceeded mandated funding by \$129,700.

Cause: The cause of the above condition was reprogramming of 7.5% outer island primary health care funding into the domestic referral program.

Effect: The effect of the above condition is noncompliance with the Marshall Islands Health Fund Act of 2002.

Recommendation: We recommend that management establish adequate internal control policies and procedures to comply with applicable sections of the Marshall Islands Health Fund Act.

Auditee Response and Corrective Action Plan: This is strictly monitored by the Ministry to avoid recurrence. As part of internal control, Ministry heads will establish appropriate implementation of Marshall Islands Health Fund Act.

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2011

Finding 2011-2

Journal Entries

Criteria: Adequate accounting controls necessitate that journal entries and recorded adjustments be appropriately approved and documented. Furthermore, an independent review of journal vouchers should occur.

Condition: There is a lack of review of entries prior to the entries being entered into the system, or verification of journal entries after they have been entered. Additionally, documentation of the journal entries is not maintained on file.

Cause: The cause of the above condition is lack of adequate policies and procedures over processing journal entries.

Effect: The effect of the above condition is a potential that unauthorized journal entries may lead to misstatements of general ledger accounts.

Recommendation: We recommend that management adopt policies and procedures to appropriately authorize journal entries prior to their posting to the general ledger.

Auditee Response and Corrective Action Plan: The Ministry ensures that established internal control policies for the preparation of journal vouchers is strictly followed. There shall be an independent review of all journal vouchers to ensure that they are correct, approved and properly documented. Going forward, all journal vouchers prepared by Chief Accountant will be reviewed by Up-line personnel for posting. This is strictly followed and implemented.

MARSHALL ISLANDS HEALTH FUND

Unresolved Prior Year Findings
Year Ended September 30, 2011

There are no unresolved prior year findings from prior year audits of the Fund.