

**REPUBLIC OF THE MARSHALL ISLANDS  
HEALTH FUND**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**YEAR ENDED SEPTEMBER 30, 2003**

## INDEPENDENT AUDITORS' REPORT

Honorable Minister Alvin Jacklick  
Ministry of Health  
Republic of the Marshall Islands:

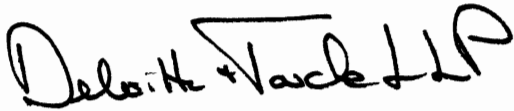
We have audited the accompanying financial statements of the Health Fund, a special revenue fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2003. These financial statements are the responsibility of the Health Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 Health 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the 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, such financial statements present fairly, in all material respects, the financial position of the Health Fund, a special revenue fund of the Republic of the Marshall Islands, as of September 30, 2003, and the results of that fund's operations in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2005, on our consideration of the Health Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 the 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 14, 2005

**REPUBLIC OF THE MARSHALL ISLANDS  
HEALTH FUND**

Balance Sheet  
September 30, 2003

ASSETS

Cash	\$ 576,043
Receivables:	
Contributions	1,361,761
Affiliate	387,788
Other	12,013
Deposit	<u>88,721</u>
	<u>\$ 2,426,326</u>

LIABILITIES AND DEFICIT

Liabilities:	
Accounts payable	\$ 745,820
Other liabilities and accruals	10,869
Payable to affiliates	<u>2,008,818</u>
Total liabilities	2,765,507
Deficit	<u>(339,181)</u>
Total liabilities and deficit	<u>\$ 2,426,326</u>

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**  
**HEALTH FUND**

Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)  
Year Ended September 30, 2003

Revenues:	
Basic Health Fund collections	\$ 6,161,749
Supplemental Health Fund collections	416,525
Others	<u>35,089</u>
Total revenues	<u>6,613,363</u>
Expenditures:	
Off-island care	1,964,236
Off-island travel	144,927
Professional and consulting fees	187,820
Other medical charges	990,452
Administrative:	
Salaries and wages	156,301
Travel	34,086
Utilities	20,324
Communications	11,669
Other administrative charges	<u>43,436</u>
Total expenditures	<u>3,553,251</u>
Excess of revenues over expenditures	3,060,112
Other financing uses:	
Contributions to RepMar's Health Care Revenue Fund	<u>(2,411,411)</u>
Change in fund balance (deficit)	648,701
Fund balance at beginning of year	-
Residual equity transfer out (note 1)	<u>(987,882)</u>
Deficit at end of year	<u><u>\$ (339,181)</u></u>

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**  
**HEALTH FUND**

Notes to Financial Statements  
September 30, 2003

(1) Reporting Entity

Effective October 1, 2002, the Nitijela of the Republic of the Marshall Islands (RepMar) passed Public Law 2002-57 to amend the Social Security Health Fund Act of 1991 and transfer the administration, control and management of the Republic of the Marshall Islands Health Fund (the Health Fund) from the Marshall Islands Social Security Administration (MISSA) to RepMar's Ministry of Health (MOH), which resulted in a residual equity transfer out of \$987,882. The Health 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 Health 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 Health Fund is considered to be a blended component unit (a Governmental Fund Type-Special Revenue Fund) of RepMar.

(2) Summary of Significant Accounting Policies

The financial statements of the Health Fund 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 Health Fund's accounting policies are described below:

Measurement Focus and Basis of Accounting

The Health Fund reports its financial position and the results of its operations in one special revenue fund. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Health Fund functions or activities.

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.

In the accompanying financial statements, the Health Fund is classified as a governmental fund type - special revenue fund.

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 net fund balances.

**REPUBLIC OF THE MARSHALL ISLANDS  
HEALTH FUND**

Notes to Financial Statements  
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

Basis of Presentation, Continued

The modified accrual basis of accounting is used by all governmental funds. 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 Health 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.

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

For the purposes of the balance sheet, cash is defined as cash in checking and savings accounts. As of September 30, 2003, the carrying amount of the Health Fund's cash was \$576,043 and the corresponding bank balance was \$820,379, which is maintained in one financial institution not subject to Federal Deposit Insurance Corporation (FDIC) insurance. The Health Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Receivables

Contributions receivable are due from employers located within the Republic of the Marshall Islands. These receivables are not collateralized and are non-interest bearing.

Compensated Absences

The Health 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. The estimated accumulated amount of unused annual and sick leave at September 30, 2003 is presently not determinable.

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.

**REPUBLIC OF THE MARSHALL ISLANDS  
HEALTH FUND**

Notes to Financial Statements  
September 30, 2003

(3) Related Party Transactions

The Health Fund is a special revenue fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including all governmental funds of RepMar. Receivables from and payables to affiliates as of September 30, 2003, are as follows:

	<u>Receivables</u>	<u>Payables</u>
RepMar:		
General Fund	\$ -	\$ 8,952
Health Care Revenue Fund	-	810,912
MISSA	<u>387,788</u>	<u>1,188,954</u>
	\$ <u>387,788</u>	\$ <u>2,008,818</u>

On November 4, 2003, the Health Fund entered into a debt reduction agreement with MISSA for the repayment of certain liabilities in the amount of \$1,177,964. Under the terms of this agreement, the Health Fund is required to make interest-free quarterly payments of \$60,000 commencing on January 1, 2004.

Receivables from MISSA represent contributions collected by MISSA unremitted to the Health Fund at September 30, 2003.

Payables to RepMar's Health Care Revenue Fund represent 45% of contributions by the Health Fund unremitted at September 30, 2003.

(4) Risk Management

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

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

Honorable Minister Alvin Jacklick  
Ministry of Health  
Republic of the Marshall Islands:

We have audited the financial statements of the Health Fund, a special revenue fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2003, and have issued our report thereon dated July 14, 2005. 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.

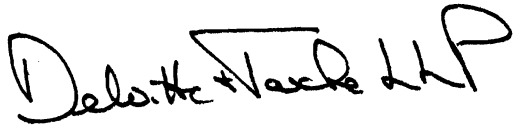
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Health Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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.

Handwritten signature of Deloitte Touche LLP in black ink.

July 14, 2005