

MARSHALL ISLANDS HEALTH FUND

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

INDEPENDENT AUDITORS' REPORT

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

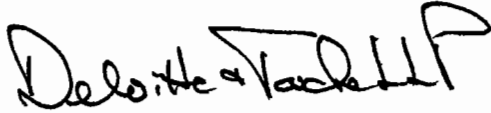
We have audited the accompanying financial statements of the Marshall Islands Health Fund (the Fund), a special revenue fund of the Republic of the Marshall Islands (RepMar), as of and for the years ended September 30, 2004 and 2003. These financial statements are the responsibility of the Fund's management. 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, such financial statements present fairly, in all material respects, the financial position of the Marshall Islands Health Fund as of September 30, 2004 and 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2006, on our consideration of the Fund's internal control over financial reporting and 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 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 read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP". The signature is stylized and cursive, with the letters "D" and "T" being particularly prominent.

May 8, 2006

MARSHALL ISLANDS HEALTH FUND

Balance Sheets
September 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Cash	\$ 1,306,726	\$ 576,043
Receivables:		
Contributions	1,225,191	1,361,761
Affiliate	637,743	387,788
Other	94,930	12,013
Deposit	<u>51,363</u>	<u>88,721</u>
	<u>\$ 3,315,953</u>	<u>\$ 2,426,326</u>
 <u>LIABILITIES AND FUND BALANCE (DEFICIT)</u> 		
Liabilities:		
Accounts payable	\$ 349,433	\$ 745,820
Other liabilities and accruals	2,521	10,869
Payable to affiliates	<u>2,081,076</u>	<u>2,008,818</u>
Total liabilities	2,433,030	2,765,507
Fund balance (deficit)	<u>882,923</u>	<u>(339,181)</u>
Total liabilities and fund balance (deficit)	<u>\$ 3,315,953</u>	<u>\$ 2,426,326</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance (Deficit)
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Revenues:		
Basic Health Fund collections	\$ 5,937,981	\$ 6,161,749
Supplemental Health Fund collections	515,915	416,525
Others	-	35,089
	<u>6,453,896</u>	<u>6,613,363</u>
Expenditures:		
Off-island care	1,433,933	2,929,723
Off-island travel	431,174	144,927
Professional and consulting fees	249,725	187,820
Other medical charges	19,053	24,965
Administrative:		
Salaries and wages	210,678	156,301
Collection fees	140,000	-
Travel	66,772	34,086
Utilities	26,871	20,324
Communications	25,681	11,669
Other administrative charges	103,392	43,436
	<u>2,707,279</u>	<u>3,553,251</u>
Total expenditures		
Excess of revenues over expenditures	3,746,617	3,060,112
Other financing uses:		
Contributions to RepMar's Health Care Revenue Fund	<u>(2,524,513)</u>	<u>(2,411,411)</u>
Change in fund balance	1,222,104	648,701
Deficit at beginning of year	(339,181)	-
Residual equity transfer out (note 1)	<u>-</u>	<u>(987,882)</u>
Fund balance (deficit) at end of year	<u>\$ 882,923</u>	<u>\$ (339,181)</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2004 and 2003

(1) Reporting Entity

The Marshall Islands Health Fund (the Fund), a governmental fund type – special revenue fund of the Republic of the Marshall Islands (RepMar) was established pursuant to the Marshall Islands Health Fund Act of 2002. Administration, control and management of the Health Fund was transferred 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 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 financial statements of the 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 Fund’s accounting policies are described below:

Measurement Focus and Basis of Accounting

The Fund reports its financial position and the results of its operations in one special revenue 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 Fund 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 net current assets.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2004 and 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 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 sheets, cash is defined as cash in checking and savings accounts. As of September 30, 2004 and 2003, the carrying amounts of the Fund's cash were \$1,306,726 and \$576,043, respectively, and the corresponding bank balances were \$1,704,157 and \$820,379, respectively, which are maintained in one financial institution not subject to Federal Deposit Insurance Corporation (FDIC) insurance. The Fund does not require collateralization of its cash deposits.

Receivables

Contributions receivable are due from MISSA, which collects contributions from employers located within the Republic of the Marshall Islands for the benefit of the Fund for a fee of 3.5% of all Fund contributions or a maximum of \$140,000 per year. These receivables are not collateralized and are non-interest bearing.

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. The estimated accumulated amounts of unused annual and sick leave at September 30, 2004 and 2003 are presently not determinable.

Taxes

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

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In fiscal year 2005, the Fund will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, an amendment to NCGA Statement 1. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe the implementation of this statement will have a material effect on the financial statements of the Fund.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe the implementation of this statement will have a material effect on the financial statements of the Fund.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

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.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

Reclassification

Certain reclassifications have been made to the 2003 financial statements in order to conform with 2004 presentation.

(3) Related Party Transactions

The 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, 2004 and 2003, are as follows:

	2004	
	<u>Receivables</u>	<u>Payables</u>
RepMar:		
General Fund	\$ -	\$ 574
Health Care Revenue Fund	-	1,072,286
MISSA	<u>637,743</u>	<u>1,008,216</u>
	\$ <u>637,743</u>	\$ <u>2,081,076</u>
	2003	
	<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 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 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 Fund at September 30, 2004 and 2003.

Payables to RepMar's Health Care Revenue Fund represent 45% of contributions by the Fund unremitted at September 30, 2004 and 2003.

(4) Risk Management

The 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 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.