

*Financial Statements and Report on Internal Control  
and Compliance*

**Health Care Revenue Fund**

(A Governmental Fund of the Republic of the Marshall Islands)

*Year ended September 30, 2022  
with Report of Independent Auditors*



Health Care Revenue Fund  
(A Governmental Fund of the Republic of the Marshall Islands)

Financial Statements and Report on Internal Control  
and Compliance

Year ended September 30, 2022

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## Report of Independent Auditors

Honorable Minister Ota Kisino  
Ministry of Health and Human Services  
Republic of the Marshall Islands

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the Health Care Revenue Fund (HCRF), a governmental fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the HCRF's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the HCRF as of September 30, 2022, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the HCRF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Emphasis of Matter*

##### *Reporting Entity*

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the HCRF 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. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the HCRF's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the HCRF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the HCRF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Other Matters***

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2024, on our consideration of the HCRF'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 solely 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 effectiveness of the HCRF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HCRF's internal control over financial reporting and compliance.

*Ernst + Young LLP*

June 25, 2024

Health Care Revenue Fund  
(A Governmental Fund of the Republic of the Marshall Islands)

Governmental Fund Balance Sheet

September 30, 2022

ASSETS

Cash	\$ 711,918
Receivables:	
Patients	840
Due from affiliates	723,037
Grantors	219,896
Employees	60,836
Other	<u>75,098</u>
	1,079,707
Less allowance for doubtful accounts	( <u>157,523</u> )
	922,184
Prepayments	<u>173,675</u>
Total assets	<u><u>\$ 1,807,777</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	\$ 556,560
Other liabilities and accruals	16,718
Due to grantors	272,112
Payable to affiliates	<u>61,221</u>
Total liabilities	<u>906,611</u>
Contingencies	
Fund balance:	
Committed for:	
Health services	<u>901,166</u>
Total fund balance	<u>901,166</u>
Total liabilities and fund balance	<u><u>\$ 1,807,777</u></u>

*See accompanying notes.*

Health Care Revenue Fund  
(A Governmental Fund of the Republic of the Marshall Islands)

Governmental Fund Statement of Revenues, Expenditures and  
Changes in Fund Balance

Year ended September 30, 2022

Revenues:	
Grants	\$ 863,303
Hospital charges	413,621
Other	<u>74,549</u>
Total revenues	<u>1,351,473</u>
Expenditures:	
Pharmaceutical	1,966,793
Medical and laboratory supplies	1,376,745
Hospital equipment	261,288
Laboratory fees	176,250
Professional and consulting fees	158,843
Freight and delivery	56,680
Administrative:	
Salaries and wages	231,183
Supplies and materials	120,175
Travel	118,755
Boat charters	81,504
Printing and reproduction	71,993
Foodstuffs	68,397
Training	55,732
Petroleum, oil and lubes	39,786
Communications	32,820
Rentals	28,546
Equipment	14,999
Other administrative costs	<u>52,722</u>
Total expenditures	<u>4,913,211</u>
Deficiency of revenues under expenditures	( <u>3,561,738</u> )
Other financing sources (uses):	
Transfer in from the Marshall Islands Health Fund	3,828,957
Transfer out to RepMar's General Fund	( <u>31,400</u> )
Total other financing sources, net	<u>3,797,557</u>
Net change in fund balance	235,819
Fund balance at beginning of year	<u>665,347</u>
Fund balance at end of year	<u><u>\$ 901,166</u></u>

*See accompanying notes.*

**Health Care Revenue Fund**  
(A Governmental Fund of the Republic of Marshall Islands)

**Notes to Financial Statements**

Year ended September 30, 2022

**1. Organization**

The Health Care Revenue Fund (HCRF), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Health Care Revenue Fund Act of 1989, as amended, to facilitate the purchase of drugs, medical and dental supplies, hospital equipment, and for the provision and administration of other health services. The Marshall Islands Health Fund (MIHF), a governmental fund of RepMar, was established pursuant to the Marshall Islands Health Fund Act of 2002, as amended, to provide, pay, or reimburse all or a determined portion of the cost of basic health care obtained at a local health care facility, as an approved off-island medical referral, or as emergency off-island medical care. The MIHF includes the operations of the Basic Health Benefits Plan. Administration, control and management of both the HCRF and the MIHF is the responsibility of the Secretary of RepMar's Ministry of Health and Human Services (MOHHS). The MIHF's enabling legislation requires that 55% of contributions collected by the Basic Health Benefits Plan be transferred, on a quarterly basis, to the HCRF. The 55% distribution is to be made after deducting the 10% costs associated with the administration of the MIHF. On February 26, 2018, the HCRF's enabling legislation was amended to authorize the Health Services Board to modify the 55% distribution, as necessary.

The accompanying financial statements relate solely to those accounting records maintained by the HCRF, and do not incorporate any accounts related to the MIHF, RepMar's Ministry of Health and Human Services, or any other departments or agencies of RepMar that may be accounted for by RepMar's Treasury. The HCRF is a blended component unit (special revenue fund) of RepMar.

**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 HCRF's accounting policies are described below.

**Measurement Focus and Basis of Accounting**

The HCRF 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. It is concerned only with the measurement of financial position and is 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).



Health Care Revenue Fund  
(A Governmental Fund of the Republic of Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**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 in the balance sheet. Operating statements of this fund 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 HCRF considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred. Significant revenues susceptible to accrual include revenue received from grants, gifts and donations.

**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 HCRF 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 HCRF’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 HCRF does not have a deposit policy for custodial credit risk.

For the purposes of the balance sheet, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2022, the carrying amount of the HCRF’s total cash was \$711,918 and the corresponding bank balances were \$735,321. Of the bank balances, \$618,870 are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$116,451 being maintained in a financial institution not subject to depository insurance.

**Health Care Revenue Fund**  
(A Governmental Fund of the Republic of Marshall Islands)

**Notes to Financial Statements, continued**

**2. Summary of Significant Accounting Policies, continued**

**Cash, continued**

As of September 30, 2022, bank deposits in the amount of \$250,000 were FDIC insured. The HCRF 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**

Receivables include amounts due from hospital patients, affiliates, employees, and other sources. These receivables are uncollateralized and non-interest bearing. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Bad debts are written-off against the allowance on the specific identification method.

**Prepayments**

Certain payments made to vendors or persons for goods and services reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

**Due to Grantors**

Due to grantors represents grant monies received which have not been earned or do not meet the “available” criterion for revenue recognition under the modified accrual basis of accounting.

**Compensated Absences**

The HCRF recognizes expenditures for annual leave and sick leave when leave is 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**

Fund balance classification is based on the extent to which the HCRF is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- 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.

**Health Care Revenue Fund**  
(A Governmental Fund of the Republic of Marshall Islands)

**Notes to Financial Statements, continued**

**2. Summary of Significant Accounting Policies, continued**

**Fund Balance, continued**

- 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.
- 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 nor 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. Any unused portion of the rest of the grants received have been included in the restricted portion/committed for fund balance.

A formal minimum fund balance policy has not been adopted.

**Taxes**

RepMar imposes a gross receipts tax of 3% on revenues. The HCRF is specifically exempt from this tax; however, all goods imported by the Health Services Board for the purposes of the MIHF, are subject to tax under the Import Tax Act of 1989.

**Estimates**

The preparation of financial statements in accordance 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.

Health Care Revenue Fund  
(A Governmental Fund of the Republic of Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**New Accounting Standards**

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, the HCRF elected to postpone implementation of these statements.

During the year ended September 30, 2022, the HCRF implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Health Care Revenue Fund  
(A Governmental Fund of the Republic of Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**New Accounting Standards, continued**

- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.
- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
  - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance.
  - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance.
  - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance.
  - 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance.
  - 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance.

Health Care Revenue Fund  
(A Governmental Fund of the Republic of Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**New Accounting Standards, continued**

- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance.

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

**Upcoming Accounting Pronouncements**

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The HCRF does not believe that this Statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The HCRF does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

Health Care Revenue Fund  
(A Governmental Fund of the Republic of Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The HCRF does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. The HCRF is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.

Health Care Revenue Fund  
(A Governmental Fund of the Republic of Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. The HCRF is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. The HCRF is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.



**Health Care Revenue Fund**  
(A Governmental Fund of the Republic of Marshall Islands)

**Notes to Financial Statements, continued**

**3. Risk Management**

The HCRF 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 HCRF 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 HCRF is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Health Fund (MIHF).

Receivables from and payables to affiliates as of September 30, 2022 are as follows:

	<u>Receivables</u>	<u>Payables</u>
RepMar:		
Marshall Islands Health Fund	\$640,440	\$ 1,860
General Fund	77,787	54,762
Other	<u>4,810</u>	<u>4,599</u>
	<u>\$723,037</u>	<u>\$61,221</u>

Contributions from the MIHF during the year ended September 30, 2022 amounted to \$3,828,957, representing a percentage share of collections of the Basic Health Benefits Plan transferred to fund HCRF operations. As of September 30, 2022, the MIHF has yet to remit contributions in the amount of \$495,000 to the HCRF, which is included in receivables from affiliates.

During the year ended September 30, 2022, the HCRF transferred \$31,400 to the General Fund for the purpose of funding the operations of the Office of the Auditor General. As of September 30, 2022, the HCRF has yet to remit payment to the General Fund in the amount of \$31,400, which is included in payable to affiliates.

**5. Contingencies**

The HCRF receives substantially all of its funding from the MIHF through collections of the MIHF'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 HCRF's programs and activities.

## Report of Independent Auditors 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 Ota Kisino  
Minister of Health and Human Services  
Republic of the Marshall Islands

We have audited, 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, the financial statements of the Health Care Revenue Fund (HCRF), which comprise the balance sheet as of September 30, 2022, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 25, 2024.

### Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the HCRF's internal control over financial reporting (internal control) as the basis for designing audit procedures that are appropriate in the circumstances 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 HCRF's internal control. Accordingly, we do not express an opinion on the effectiveness of the HCRF's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the HCRF's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst + Young LLP*

June 25, 2024