

*Financial Statements and Report on Internal Control
and Compliance*

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

*Years ended September 30, 2023 and 2022
with Report of Independent Auditors*



Shape the future
with confidence

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

**Financial Statements and Report on Internal Control
and Compliance**

Years ended September 30, 2023 and 2022

Contents

Report of Independent Auditors.....	1
Audited Basic Financial Statements	
Governmental Fund Balance Sheets	4
Governmental Fund Statements of Revenues, Expenditures and Changes in Fund Balance	5
Notes to Financial Statements.....	6
Report on Internal Control and Compliance	
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 <i>Government Auditing Standards</i>	15

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 years ended September 30, 2023 and 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 (collectively referred to as the "basic financial statements").

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, 2023 and 2022, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 audits. 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.

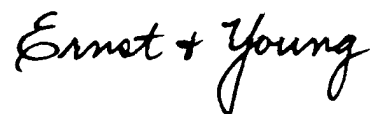
Other Matters

Required Supplementary Information

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 October 23, 2025, 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.

The logo for Ernst + Young, featuring the company name in a stylized, handwritten-style script.

October 23, 2025

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

Governmental Fund Balance Sheets

	September 30,	
	2023	2022
<u>ASSETS</u>		
Cash	\$ 2,567,134	\$ 711,918
Receivables:		
Patients	---	840
Due from affiliates	629,541	723,037
Grantors	275,689	219,896
Employees	50,101	60,836
Other	35,740	75,098
	991,071	1,079,707
Less allowance for doubtful accounts	(275,626)	(157,523)
	715,445	922,184
Prepayments	16,300	173,675
Total assets	\$ 3,298,879	\$ 1,807,777
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 470,103	\$ 556,560
Other liabilities and accruals	14,923	16,718
Due to grantors	140,887	272,112
Payable to affiliates	451,190	61,221
Total liabilities	1,077,103	906,611
Contingencies		
Fund balance:		
Committed for:		
Health services	2,221,776	901,166
Total liabilities and fund balance	\$ 3,298,879	\$ 1,807,777

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

**Governmental Fund Statements of Revenues, Expenditures and
Changes in Fund Balance**

	Year ended September 30,	
	2023	2022
Revenues:		
Grants	\$ 503,340	\$ 863,303
Hospital charges	572,656	413,621
Other	103,566	74,549
Total revenues	<u>1,179,562</u>	<u>1,351,473</u>
Expenditures:		
Pharmaceutical	1,247,278	1,966,793
Medical and laboratory supplies	1,180,366	1,376,745
Hospital equipment	233,813	261,288
Laboratory fees	149,727	176,250
Freight and delivery	85,790	56,680
Professional and consulting fees	51,478	158,843
Administrative:		
Travel	287,143	81,504
Salaries and wages	144,911	231,183
Foodstuffs	79,932	68,397
Training	51,841	32,820
Rentals	48,268	28,546
Printing and reproduction	34,297	39,786
Supplies and materials	34,294	120,175
Petroleum, oil and lubes	21,026	55,732
Boat charters	16,500	118,755
Equipment	9,120	14,999
Communications	7,420	71,993
Other administrative charges	53,015	52,722
Total expenditures	<u>3,736,219</u>	<u>4,913,211</u>
Deficiency of revenues under expenditures	<u>(2,556,657)</u>	<u>(3,561,738)</u>
Other financing sources (uses):		
Transfers in from the Marshall Islands Health Fund	3,909,210	3,828,957
Transfers out to RepMar's General Fund	(31,943)	(31,400)
Total other financing sources, net	<u>3,877,267</u>	<u>3,797,557</u>
Net change in fund balance	1,320,610	235,819
Fund balance at beginning of year	<u>901,166</u>	<u>665,347</u>
Fund balance at end of year	<u>\$ 2,221,776</u>	<u>\$ 901,166</u>

See accompanying notes.

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

Notes to Financial Statements

Years ended September 30, 2023 and 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 the 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 sheets. 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 based on 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 purposes of the balance sheets, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2023, and 2022, the carrying amount of the HCRF’s total cash was \$2,567,134 and \$711,918, respectively, and the corresponding bank balances were \$2,582,936 and \$735,321, respectively. Of the bank balances, \$2,407,058 and \$618,870 respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$175,878 and \$116,451, respectively, 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, 2023 and 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 sheets 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 a 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

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2023, the HCRF implemented the following pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations*, which provides 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 implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves 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 implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which 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 implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

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

Recently Adopted Accounting Pronouncements, continued

GASB Statement No. 99 provides clarification of provisions in:

- 1) GASB Statement No. 87, *Leases*, 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.
- 2) 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.
- 3) GASB Statement No. 96 related to the SBITA term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

In addition, this Statement modifies accounting and reporting guidance in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, related to termination of hedge.

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

Upcoming Accounting Pronouncements

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 the 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 the fiscal year ending September 30, 2024.

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 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. GASB Statement No. 100 will be effective for the 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. GASB Statement No. 101 will be effective for the fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for the fiscal year ending September 30, 2025.

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 April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to management's discussion and analysis (MD&A), unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in basic financial statements, budgetary comparison information and financial trends information in the statistical section. GASB Statement No. 103 will be effective for the fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement also requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for the fiscal year ending September 30, 2026.

Management of the HCRF is currently evaluating the effects of implementation, if any, on the HCRF's financial statements of the above upcoming accounting pronouncements.

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, 2023 and 2022 are as follows:

	2023		2022	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Marshall Islands Health Fund	\$529,754	\$360,626	\$640,440	\$ 1,860
General Fund	99,787	86,710	77,787	54,762
Other	---	3,854	4,810	4,599
	<u>\$629,541</u>	<u>\$451,190</u>	<u>\$723,037</u>	<u>\$61,221</u>

Contributions from the MIHF during the years ended September 30, 2023 and 2022 amounted to \$3,909,210 and \$3,828,957, respectively, representing a percentage share of collections of the Basic Health Benefits Plan transferred to fund the HCRF operations. As of September 30, 2023 and 2022, the MIHF has yet to remit contributions in the amount of \$209,627 and \$495,000, respectively, to the HCRF, which are included in the balance sheets as receivables from affiliates. During the year ended September 30, 2023, the MIHF borrowed \$500,000 from the HCRF to supplement cash requirements, of which \$250,000 is receivable from the MIHF at September 30, 2023, and which is also included in the balance sheet as receivable from affiliates.

During the years ended September 30, 2023 and 2022, the HCRF transferred \$31,943 and \$31,400, respectively, to the General Fund for the purpose of funding the operations of the Office of the Auditor General. As of September 30, 2023, the MOHHS had executed an offset arrangement with the Ministry of Finance, Banking and Postal Services to offset receivables due from with payables due to the General Fund.

5. Contingencies

The HCRF receives substantially all its funding from the MIHF through collections of the MIHF's Basic Health Benefits Plan. A significant reduction in the level of the funding, if this were to occur, may impact 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, 2023, 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 October 23, 2025.

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.

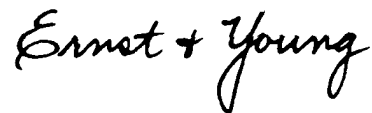
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

October 23, 2025