

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

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**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

# MARSHALL ISLANDS HEALTH FUND

Years Ended September 30, 2013 and 2012  
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## **INDEPENDENT AUDITORS' REPORT**

Honorable Phillip Muller  
Minister of Health  
Republic of the Marshall Islands:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Marshall Islands Health Fund, a governmental fund of the Republic of the Marshall Islands, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility 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.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

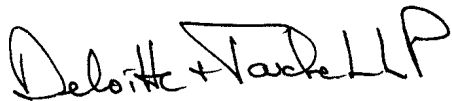
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshall Islands Health Fund as of September 30, 2013 and 2012, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter - Reporting Entity***

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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2014, on our consideration of the Marshall Islands Health Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marshall Islands Health Fund's internal control over financial reporting and compliance.

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June 4, 2014

# MARSHALL ISLANDS HEALTH FUND

Balance Sheets  
September 30, 2013 and 2012

	<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Cash		\$ 427,634	\$ 369,180
Receivables:			
Contributions		1,699,195	1,277,035
Affiliate		1,765,558	1,560,772
Employees		<u>14,071</u>	<u>14,053</u>
		<u>3,478,824</u>	<u>2,851,860</u>
Prepayments		<u>46,260</u>	<u>46,250</u>
		<u>\$ 3,952,718</u>	<u>\$ 3,267,290</u>
 <u>LIABILITIES AND FUND BALANCE</u> 			
Liabilities:			
Accounts payable		\$ 80,461	\$ 191,197
Medical claims payable		1,062,610	341,471
Payable to affiliates		<u>1,318,591</u>	<u>927,829</u>
Total liabilities		<u>2,461,662</u>	<u>1,460,497</u>
Contingency			
Fund balance:			
Non-spendable:			
Prepaid amounts		46,260	46,250
Committed for:			
Health services		<u>1,444,796</u>	<u>1,760,543</u>
		<u>1,491,056</u>	<u>1,806,793</u>
Total liabilities and fund balance		<u>\$ 3,952,718</u>	<u>\$ 3,267,290</u>

See accompanying notes to financial statements.

## MARSHALL ISLANDS HEALTH FUND

### Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2013 and 2012

	2013	2012
Revenues:		
Basic Health Fund collections	\$ 6,867,299	\$ 6,544,698
Supplemental Health Fund collections	628,318	592,144
Other	1,477	449
Total revenues	7,497,094	7,137,291
Expenditures:		
Off-island care	2,925,975	2,013,336
Off-island travel	635,500	500,396
Professional and consulting fees	185,010	183,500
Other medical charges	62,519	161,202
Administrative:		
Salaries and wages	291,907	293,696
Collection fees	200,000	200,000
Travel	56,286	78,733
Supplies and materials	37,334	9,415
Utilities	34,546	36,450
POL	29,703	30,760
Capital outlays	24,732	16,483
Repairs and maintenance	23,687	7,579
Training	16,719	2,973
Rentals	15,300	5,200
Communications	14,982	12,471
Professional fees	11,000	35,426
Insurance	12,423	11,919
Other administrative charges	47,559	48,586
Total expenditures	4,625,182	3,648,125
Excess of revenues over expenditures	2,871,912	3,489,166
Other financing uses:		
Contributions to RepMar's Health Care Revenue Fund	(3,187,649)	(3,568,038)
Net change in fund balance	(315,737)	(78,872)
Fund balance at beginning of year	1,806,793	1,885,665
Fund balance at end of year	\$ 1,491,056	\$ 1,806,793

See accompanying notes to financial statements.

# MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2013 and 2012

## (1) Reporting Entity

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

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

## (2) Summary of Significant Accounting Policies

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

### Measurement Focus and Basis of Accounting

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

### Basis of Presentation

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

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

# MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2013 and 2012

## (2) Summary of Significant Accounting Policies, Continued

### Budget

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

### Cash

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

For the purposes of the balance sheets, cash is defined as cash in checking and savings accounts. As of September 30, 2013 and 2012, the carrying amounts of the Fund's total cash were \$427,634 and \$369,180, respectively, and the corresponding bank balances were \$458,688 and \$808,204, respectively. Of the bank balances, \$385,946 and \$519,344, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, bank deposits in the amount of \$250,000 were FDIC insured. The Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

### Receivables

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

### Compensated Absences

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



# MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2013 and 2012

## (2) Summary of Significant Accounting Policies, Continued

### Fund Balance

Fund balance classifications are based on the extent to which the Fund 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.
- 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 or committed.
- Unassigned includes negative fund balances in other governmental funds.

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

A formal minimum fund balance policy has not been adopted.

### Taxes

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

### Estimates

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

## MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2013 and 2012

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards

During the year ended September 30, 2013, the Fund implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The implementation of these statements did not have a material effect on the accompanying financial statements.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.

## MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2013 and 2012

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Fund.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Fund.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Fund.

### (3) Risk Management

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

## MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2013 and 2012

### (4) Related Party Transactions

The Fund is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. The Health Care Revenue Fund is a governmental fund of RepMar established by the Nitijela for the purchase of drugs, medical supplies and equipment and the provision and administration of other health services. Receivables from and payables to affiliates as of September 30, 2013 and 2012, are as follows:

	2013		2012	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Care Revenue Fund	\$ -	\$ 1,301,402	\$ -	\$ 910,976
General Fund	3,606	3,604	13,391	3,604
MISSA	<u>1,761,952</u>	<u>13,585</u>	<u>1,547,381</u>	<u>13,249</u>
	<u>\$ 1,765,558</u>	<u>\$ 1,318,591</u>	<u>\$ 1,560,772</u>	<u>\$ 927,829</u>

Receivable from MISSA represents contributions collected by MISSA unremitted to the Fund at September 30, 2013 and 2012.

Contributions to RepMar's Health Care Revenue Fund during the years ended September 30, 2013 and 2012 were \$3,187,649 and \$3,568,038, respectively, representing 55% of collections of the Basic Health Benefits Plan. Payable to RepMar's Health Care Revenue Fund represents unremitted contributions at September 30, 2013 and 2012.

### (5) Contingency

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

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

Honorable Phillip Muller  
Minister of Health  
Republic of the Marshall Islands:

We have audited, in accordance with the 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 Marshall Islands Health Fund, which comprise the balance sheet as of September 30, 2013, 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 4, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Marshall Islands Health Fund's internal control over financial reporting (internal control) to determine the 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 Marshall Islands Health Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marshall Islands Health Fund's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2013-1 to be material weaknesses.

## **Compliance and Other Matters**

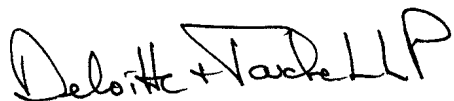
As part of obtaining reasonable assurance about whether the Marshall Islands Health Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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*.

## **Marshall Islands Health Fund's Responses to Findings**

The Marshall Islands Health Fund's responses to the findings identified in to our audit are described in the accompanying Schedule of Findings and Responses. The Marshall Islands Health Fund's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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.

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June 4, 2014

## MARSHALL ISLANDS HEALTH FUND

### Schedule of Findings and Responses Year Ended September 30, 2013

#### Finding 2013-1

##### Revolving Fund Bank Reconciliation

Criteria: Management is responsible for adequate internal controls on the reconciliation of revolving funds provided to its Third Party Administrator (TPA) for off-island referrals.

Condition: The Ministry of Health did not adjust the general ledger balance for the revolving funds (GL Acct #1020) for the entire year. As of September 31, 2013, the unadjusted balance amounted to \$130,937 whereas bank reconciliation amounts totaled \$35,851 with the variance of \$95,086 representing unreconciled medical expenditures incurred by the TPA. An audit adjustment was proposed to reduce recorded bank balances by \$95,086.

Cause: The cause of the above condition appears to be due to delayed submission of TPA expenditures resulting in medical expenditures not being recorded in the correct accounting period.

Effect: The above condition is a potential misstatement of cash and medical expenditures.

Recommendation: We recommend that management implement adequate internal control on cash collection and disbursements of revolving fund and perform timely bank reconciliations to address immediate resolution of reconciling items as variances occur.

Prior Year Status: The lack of adequate internal controls over the bank reconciliation process was reported as a finding in the audit of the Fund for fiscal year 2012.

##### Auditee Response and Corrective Action Plan:

Management will ensure that appropriate offices have designated staff to focus on revolving fund with the TPA. Furthermore, ensure strict compliance of the agreement terms per section one (1) a, b and c. Moving forward, the requirement prior to replenishment payment, system-generated adjustment/transaction should be completed. For improved internal control, office will ensure timely reconciliation of book and bank balances.

**MARSHALL ISLANDS HEALTH FUND**

Unresolved Prior Year Findings  
Year Ended September 30, 2013

The status of unresolved prior year findings is discussed in Schedule of Findings and Responses section of this report (page 13).