

**MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION

Years Ended September 30, 2009 and 2008
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Social Security Administration:

We have audited the accompanying statements of net assets of the Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of the Marshall Islands, as of September 30, 2009 and 2008, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of the management of MISSA. Our responsibility is to express an opinion on these financial statements based on our audits.

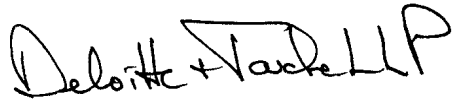
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MISSA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial status of MISSA as of September 30, 2009 and 2008, and the changes in financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of MISSA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of MISSA taken as a whole. The accompanying Combining Schedule of Net Assets (page 22) and Combining Schedule of Changes in Net Assets (page 23) as of and for the year ended September 30, 2009 are presented for purposes of additional analysis and are not a required part of the basic financial statements of MISSA. These schedules are the responsibility of MISSA's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements as of September 30, 2009 and for the year then ended and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated _November 12, 2009, on our consideration of MISSA'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

November 12, 2009

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2009

The following Management's Discussion and Analysis (MD&A) of the Marshall Islands Social Security Administration's (MISSA) financial performance provides an overview to the financial statements of MISSA for the fiscal years ended September 30, 2009 and 2008. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, we encourage the readers to consider it in conjunction with the audited financial statements, which follow this section.

REQUIRED FINANCIAL STATEMENTS

MISSA, a component unit of the Republic of the Marshall Islands (RepMar), prepares its financial statements on the accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Statements of Net Assets reflect all of MISSA's assets and liabilities and provide information on the nature and amount of investments available to ensure payment of retirement, survivor, disability and lump sum benefits. All additions to and deductions from the net assets held in trust for retirement, disability, survivor and lump sum benefits are accounted for in the Statements of Changes in Net Assets. This statement measures MISSA's performance over the past year in increasing or decreasing the net assets available for future benefits.

FINANCIAL ANALYSIS OF MISSA

The Statements of Net Assets on page 9 and the Statements of Changes in Net Assets on page 10 provide an indication of MISSA's financial condition. An increase in net assets over time typically indicates an improvement in financial condition. While these statements measure the value of MISSA's net assets and the changes to them, another important factor to consider in determining the financial health of MISSA is its actuarial funded status.

Fiscal year 2009 has been a challenging year for MISSA with the fair market value of MISSA's investments going up and down in the first few months of the fiscal year because of the current global financial crisis. The market, however, did stabilize in the last quarter of the fiscal year that resulted in an overall increase in net assets of \$1,696,099. Net investment income amounted to \$3,347,438, which is a positive turnaround of 150.67% when compared to the net investment loss of \$6,606,530 in the previous fiscal year. Net contributions decreased slightly from \$13,471,032 to \$12,604,191 in Fiscal Year 2009.

From the onset of the new millennium, MISSA's total assets have grown steadily until fiscal year 2007 mainly due to the extraordinary performance of MISSA's investments and the aggressive implementation of tax collection and audit practices. However, the continual growth in benefit payments brought great concern over the future sustainability of the system. This trend is further worsened by the constant introduction of proposed legislations that are detrimental to the financial viability of the Retirement Fund.

A ten year benefit-projection study released in January 2006 by MISSA's actuary recommended a progressive increase in the Retirement Fund tax rate to as much as 9.1% in 2015 in order for MISSA to meet its benefit payment obligations at current levels. Further, the most recent actuarial valuation report dated October 1, 2008 indicated an unfunded Actuarial Accrued Liability (AAL) of \$163 million or 72%. The Administration's AAL as of October 1, 2008 was \$226 million while the market value of its assets amounted to only \$65 million. To improve its funding status, MISSA has been encouraged by its actuary to work on increasing the funded AAL from 29% to 50% over the next ten years.

As of September 30, 2009, MISSA's total net assets held in reserve for future benefits have increased slightly to \$64,882,763 compared to the previous year.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2009

MISSA has no debt and did not have significant activity in its capital assets. Please refer to note 7 to the financial statements for additional information concerning MISSA's capital assets.

A summary of MISSA's Statements of Net Assets as of September 30, 2009, 2008 and 2007 is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>			
Cash	\$ 836,178	\$ 1,452,587	\$ 1,623,181
Time certificates of deposit	4,775,752	4,546,005	4,284,756
Receivables, net:			
Contributions	2,114,800	2,092,371	2,072,535
Other	1,531,557	1,879,934	300,963
Due from the Ministry of Health	-	37,964	277,964
Investments:			
Cash management	55,279	87,906	67,157
Stocks	16,764,053	16,260,481	16,006,856
Mutual funds	39,982,483	37,668,345	44,826,098
Fixed assets, net	<u>88,151</u>	<u>80,197</u>	<u>83,454</u>
 Total assets	 <u>66,148,253</u>	 <u>64,105,790</u>	 <u>69,542,964</u>

LIABILITIES

Accounts payable	72,943	100,500	115,748
Other liabilities and accruals	165,282	161,386	189,405
Due to the Ministry of Health	<u>1,027,268</u>	<u>657,243</u>	<u>209,609</u>
 Total liabilities	 <u>1,265,493</u>	 <u>919,129</u>	 <u>514,762</u>

NET ASSETS

Held in trust for future benefits	\$ <u>64,882,760</u>	\$ <u>63,186,661</u>	\$ <u>69,028,202</u>
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A summary of MISSA's Statements of Changes in Net Assets for the years ended September 30, 2009, 2008 and 2007 is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Additions:			
Contributions	\$ 12,604,191	\$ 13,471,032	\$ 12,508,494
Net investment income (losses)	3,347,438	(6,606,530)	7,627,583
Other	<u>362,598</u>	<u>859,042</u>	<u>349,063</u>
 Total additions	 <u>16,314,227</u>	 <u>7,723,544</u>	 <u>20,485,140</u>
Deductions:			
Benefit payments	13,645,174	12,548,715	11,653,271
Administrative	<u>972,954</u>	<u>1,016,370</u>	<u>982,986</u>
 Total deductions	 <u>14,618,128</u>	 <u>13,565,085</u>	 <u>12,636,257</u>
 Change in net assets	 \$ <u>1,696,099</u>	 \$ <u>(5,841,541)</u>	 \$ <u>7,848,883</u>

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2009

Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in MISSA's report on the audit of its financial statements, which is dated January 15, 2009. Such Management Discussion and Analysis explains the major factors impacting the fiscal year 2008 financial statements and can be obtained from MISSA's Administrator via the contact information on page 8.

Additions:

The Administration had expected contributions to decrease this fiscal year due to the effect of the global financial crisis in the country. Contributions for the year were \$12,604,191 or 2.67% lower than its target. The RMI Government, through the Ministry of Finance, has consistently paid its bi-weekly remittances on time and increased its contributions from \$3,824,273 in fiscal year 2008 to \$3,896,499 in fiscal year 2009, or an increase of 1.89%. Private contributions decreased by 9.36% from \$8,729,978 in fiscal year 2008 to \$7,912,754 in fiscal year 2009. Penalties and interest also increased from \$916,781 in fiscal year 2008 to \$2,073,541 in fiscal year 2009, or an increase of 126.18%. This was due to a prior period adjustment in court judgment receivables. There was also a provision for bad debts expense for fiscal year 2009 amounting to \$1,278,603 that pertains to a prior year adjustment in penalties, and was shown as direct deduction to revenues this year. Other income has decreased by 57.79% from \$859,042 in fiscal year 2008 to \$362,598 in fiscal year 2009.

The following table presents MISSA's investment allocations as of September 30, 2009 with comparative figures in 2008.

Investment Type	As of September 30, 2009				As of September 30, 2008			
	Weight	Target	Market Value (\$'000)	Target Value (\$'000)	Weight	Target	Market Value (\$'000)	Target Value (\$'000)
Small Cap	5.6%	4.8%	\$ 2,732	\$ 2,322	5.4%	4.8%	\$ 2,501	\$ 2,223
Small Cap Value	8.7%	7.2%	\$ 4,225	\$ 3,482	8.0%	7.2%	\$ 3,692	\$ 3,335
Large Cap	5.4%	4.8%	\$ 2,590	\$ 2,321	4.9%	4.8%	\$ 2,270	\$ 2,223
Large Cap Value	8.4%	7.2%	\$ 4,052	\$ 3,482	7.4%	7.2%	\$ 3,426	\$ 3,335
Int'l Small Cap	5.5%	4.5%	\$ 2,657	\$ 2,176	4.1%	4.5%	\$ 1,869	\$ 2,084
Int'l Small Cap Value	6.8%	5.4%	\$ 3,282	\$ 2,612	4.9%	5.4%	\$ 2,290	\$ 2,501
Int'l Large Cap	5.4%	4.5%	\$ 2,612	\$ 2,176	4.4%	4.5%	\$ 2,054	\$ 2,084
Int'l Large Cap Value	6.7%	5.4%	\$ 3,260	\$ 2,612	5.0%	5.4%	\$ 2,310	\$ 2,501
Emerging Markets	4.8%	4.2%	\$ 2,335	\$ 2,031	3.6%	4.2%	\$ 1,684	\$ 1,945
Domestic Real Estate	5.2%	4.5%	\$ 2,509	\$ 2,176	5.4%	4.5%	\$ 2,506	\$ 2,084
International Real Estate	5.3%	4.5%	\$ 2,567	\$ 2,176	4.2%	4.5%	\$ 1,932	\$ 2,084
Commodities	2.7%	3.0%	\$ 1,284	\$ 1,451	3.7%	3.0%	\$ 1,727	\$ 1,389
Bonds	29.4%	39.75%	\$ 14,202	\$ 19,224	38.8%	39.75%	\$ 17,964	\$ 18,409
Cash and Equivalents	0.1%	0.25%	\$ 55	\$ 121	0.2%	0.25%	\$ 88	\$ 116
TOTAL	100%	100%	\$ 48,362	\$ 48,362	100%	100%	\$ 46,313	\$ 46,313

The above allocations are based on the revised investment policy statement adopted by the Board of Directors on November 26, 2007 wherein MISSA's total investment portfolio requires an allocation of 60% for equities and 40% for bonds. With the exception of MISSA's investment in the Bank of the Marshall Islands (BOMI) and Marshall Islands Services Corporation, all investments are limited to no-load mutual funds, unit investment trusts, Exchange Trade Funds, close-end mutual funds, and other diversified marketable securities.

For the year ended September 30, 2009, the fair market value of MISSA's investments in the U.S. and International markets increased by \$1,102,217. A total of \$1,054,231 in dividends and interest earnings were received and subsequently reinvested along with other interest income of \$265,646. Investment management fees have decreased by 16.71% from \$125,497 in 2008 to \$104,524 in 2009.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2009

MISSA presently holds a 31% interest in BOMI. For the year ended September 30, 2009, MISSA's 65,285 shares at BOMI increased in value by \$1,029,868 representing equity earnings. Annual dividend payments of \$293,783 and \$293,783 were received from BOMI in April 2009 and 2008, respectively. As of September 30, 2009 and 2008, the shares at BOMI were valued at \$8,409,973 and \$7,673,887, respectively. Further, MISSA holds 3,000 shares of common stock at \$10.00 par value in the Marshall Islands Service Corporation.

Deductions:

Deductions represent benefit payments and administrative expenses. For the year ended September 30, 2009, total deductions amounted to \$14,618,128, which is 7.76% higher than the \$13,565,085 paid in the previous year. Due to the implementation of various restrictions and controls on eligibility, benefit payments for fiscal year 2009 increased steadily by 8.74% to a total of \$13,645,174, as compared to \$12,548,715 paid in fiscal year 2008. Administrative expenses were maintained within the budgetary limits. For the years ended September 30, 2009 and 2008, MISSA's administrative expenses totaled \$972,954 and \$1,016,370, respectively. These amounts represent 7% of total contributions generated during these respective years. As mandated by the Social Security Act of 1990, MISSA's administrative expenses have an allowable ceiling of as much as 20% of total revenues for any given year.

FUTURE OUTLOOK ON SUSTAINABILITY

The twelve months of FY 2009 have been a bumpy ride for the Administration as it continued to bear the brunt of the global financial crisis. The Administration's investments have been rallying hard since hitting multi-year lows in the first five months of FY 2009, with MISSA losing another \$12.87 million. Fortunately, it was compensated by the significant gains in the succeeding months that resulted in a net gain of \$2.2 million for the whole of FY 2009. For many, this may be an indication that the financial sector and world economy are close to stabilizing, as "the situation may now have stopped getting worse". But for the Administration, the road to recovery is still far from over.

Although the US economy may have suffered most from intensified financial strains and the continued fall in the housing sector, third world and developing countries like the Marshall Islands have been hit hard by the collapse in global trade as well as by rising financial problems of their own. As the country's supply chain is totally dependent upon global trade, the inflated prices of prime commodities have seriously affected the purchasing power of the RMI residents. Although, oil prices fell sharply and inflation pressures have subsided quickly around the world – this was not the case in the Marshall Islands. Gas prices are still averaging \$5 a gallon while prices of prime commodities remain high. Compounded by a very high level of unemployment in the country, the current situation brings many uncertainties as to what lies ahead. With a declining economy, businesses have resorted to freezing employment or downsizing of their manpower in order to survive. A shrinking labor force will mean reduced revenues for the government and lower social security contributions for MISSA.

MISSA's latest actuarial report is not promising, although it is much better than the actuarial report five years ago. What has brought a new sense of urgency to the Administration is the distressing result of the actuarial study that points out the fact that if no drastic changes are made to the present benefit structure now, the Marshall Islands Retirement Fund will be fully exhausted by year 2022.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2009

This new sense of urgency has impacted MISSA's Board of Directors, management and staff who have now joined hands to do what is best for the people of the Marshall Islands. With the future of thousands of present and future beneficiaries at stake, MISSA is now seriously considering the following recommendations by the actuary in order to prolong the life of the Fund beyond 2022:

1. Extend normal retirement age to 65
2. Freeze all benefits for active workers
3. Decrease by 25% all benefits across the board
4. An additional plan design was to look at converting the social security system from a defined benefit (DB) plan to defined contribution (DC) plan.

Since FY2006, the combined amounts of benefits and administrative expenses paid out by MISSA exceeded its collections. This imbalance is expected to continue in the coming fiscal year with benefits expected to increase by 9%-10% while cash collections are projected to decline by 6%-8%. The disparity is anticipated to effect a cash deficit of at least \$1.2 million in FY 2010 alone.

MISSA'S FOCUS IN THE COMING FISCAL YEAR

Although the current global system is highly vulnerable and uncertain at the moment, MISSA's investment portfolio is designed to ride out market volatility and market cycles. It is prudent, widely diversified and divided into 12 separate asset classes to reduce risk while achieving global market returns. MISSA believes that it has more than adequate time for its investment portfolio to recover. Aside from routine rebalancing, the Administration anticipates no changes in its investment program and strategies in the new fiscal year.

MISSA's local investments continue to grow as interest from TCDs and equity earnings from BOMI were earned in FY 2009. At least another \$294 thousand is expected to be received in the coming fiscal year.

Despite the reduction in the number of workers reported by Kwajalein employers, MISSA was still able to maintain positive cash flows in FYs 2008 and 2009, and expects the continued prompt remittances by the RMI Government, KRS and Chugach Development Corporation – the two main employers in USAKA, and several big employers on Majuro who have consistently paid their contributions on time. They are expected to be the same revenue driving forces in the coming fiscal year.

Another significant source of revenue that MISSA expects from Kwajalein is the very generous offer by USAKA on behalf of the Army & Air Force Exchange Service (AAFES) to gratuitously contribute amounts equal to the employer's share of the MISSA and Health Fund contributions, on behalf of its 100 plus RMI citizen employees. This translates to nearly \$170 thousand annually.

Majuro's Pan Pacific Foods (RMI), Inc. (PPF), a tuna loining plant, is also expected to provide the much needed employment opportunities to at least 700 local workers as it stepped into a new production phase in mid-2009. Despite huge losses in their initial year of operation, the company is moving forward. With higher production expected in the coming months, more workers are expected to be hired.

It can be recalled that MISSA lost a significant chunk of its revenues in late 2004 and subsequent years when PPF's predecessor, the PM & O tuna loining plant closed down and more than 600 local workers lost their jobs. MISSA used to collect about \$313 thousand a year from the said company.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2009

Majuro Atoll Local Government (MalGov) has also impacted positively on MISSA collections as it paid a total of \$2.04 million since January 2008. With the payment plan still in place, \$1.14 million is expected to be paid by MalGov annually. A third of this amount comprised of Health Fund contributions that are remitted to the Ministry of Health.

MISSA's tax officers and auditors, with the support of the legal counsel, will continue their relentless campaign to collect past due contributions. Delinquent accounts collected in the past two years comprise of about 10% to 15% of MISSA's total revenues.

The Administration has also embarked on cost saving measures, more particularly in power consumption, utilities, off-island travels and supplies. This translates to about \$148 thousand reduction in the budget for FY 2010 when compared to that of the previous year. The reduction in FY 2010 budget was based on the conviction among the MISSA Board, management and staff that reduction of expenses must start first from within the Administration.

Likewise, the Administration has initiated a long-term scheme on beneficiary screening for continued entitlement aimed to identify recipients who are no longer eligible for benefits. This action plan will entail more rigorous efforts by MISSA personnel to seek out information that may lead to the discovery of deceased retirees and survivors whose families continue to receive benefits, disabled individuals who have recovered from their disabilities, surviving spouses who have remarried and surviving children who are no longer eligible for benefits.

Lastly, although MISSA no longer enjoys substantial cash surpluses that it used to have in the past, the Administration guarantees that there will be no interruption in benefit payments in the coming months. In the event that a significant amount of contributions is not remitted on time, MISSA has TCDs in a local bank worth \$4.78 million that can be used as the need arises. These TCDs represent MISSA's short-term reserves that will be utilized to ensure that retirees and other beneficiaries of the Retirement Fund continue to receive their benefits on time.

CONTACTING MISSA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our beneficiaries and others a general overview of MISSA's finances and to demonstrate its accountability for the money it collects. If you have questions about this report or need additional financial information, contact the Administrator, P.O. Box 175, Majuro, MH 96960 or via email at missa3@ntamar.net.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Statements of Net Assets
September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash	\$ 836,178	\$ 1,452,587
Time certificates of deposit	<u>4,775,752</u>	<u>4,546,005</u>
Receivables, net:		
Contributions	2,114,800	2,092,371
Other	<u>1,531,557</u>	<u>1,879,934</u>
Total receivables, net	<u>3,646,357</u>	<u>3,972,305</u>
Due from the Ministry of Health	<u>-</u>	<u>37,964</u>
Investments:		
Cash management	55,279	87,906
Stocks	16,764,053	16,260,481
Mutual funds	<u>39,982,483</u>	<u>37,668,345</u>
Total investments	<u>56,801,815</u>	<u>54,016,732</u>
Fixed assets, net	<u>88,151</u>	<u>80,197</u>
Total assets	<u>66,148,253</u>	<u>64,105,790</u>

LIABILITIES

Accounts payable	72,943	100,500
Other liabilities and accruals	165,282	161,386
Due to the Ministry of Health	<u>1,027,268</u>	<u>657,243</u>
Total liabilities	<u>1,265,493</u>	<u>919,129</u>

Commitments and contingencies

NET ASSETS

Held in trust for retirement, disability and survivors' benefits	<u>\$ 64,882,760</u>	<u>\$ 63,186,661</u>
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See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Statements of Changes in Net Assets
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Additions:		
Contributions:		
Private employees	\$ 7,912,754	\$ 8,729,978
Government employees	3,896,499	3,824,273
Penalties and interest	<u>2,073,541</u>	<u>916,781</u>
Total contributions	13,882,794	13,471,032
Less allowance for doubtful accounts	<u>1,278,603</u>	<u>-</u>
Net contributions	<u>12,604,191</u>	<u>13,471,032</u>
Investment income (losses):		
Net change in the fair value of investments	2,132,085	(8,503,259)
Dividends	1,054,231	1,742,497
Interest	<u>265,646</u>	<u>279,729</u>
Total investment income (losses)	3,451,962	(6,481,033)
Less investment expense:		
Investment management and custodial fees	<u>104,524</u>	<u>125,497</u>
Net investment income (losses)	<u>3,347,438</u>	<u>(6,606,530)</u>
Other	<u>362,598</u>	<u>859,042</u>
Total additions	<u>16,314,227</u>	<u>7,723,544</u>
Deductions:		
Benefit payments:		
Retirement	7,805,385	7,085,995
Survivors	4,733,741	4,332,029
Disability	1,037,927	1,054,194
Lump sum	<u>68,121</u>	<u>76,497</u>
Total benefit payments	13,645,174	12,548,715
Administrative	<u>972,954</u>	<u>1,016,370</u>
Total deductions	<u>14,618,128</u>	<u>13,565,085</u>
Change in net assets	1,696,099	(5,841,541)
Net assets at beginning of year	<u>63,186,661</u>	<u>69,028,202</u>
Net assets at end of year	<u>\$ 64,882,760</u>	<u>\$ 63,186,661</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2009 and 2008

(1) Organization

The Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to RepMar Public Law 1990-75 (the Social Security Act of 1990), as amended. The law repealed the Social Security Act of 1987 and established MISSA to administer the Marshall Islands Social Security Retirement Fund (the Retirement Fund). The Retirement Fund was established to provide a financially sound social security system with pension benefits and early retirement, whereby workers would be ensured a measure of security in their old age and during disability, and whereby surviving spouses and surviving children of deceased workers would be ensured support after the loss of the family's income. Additionally, MISSA is responsible for processing, monitoring and distributing benefit claims under the Prior Service Benefits Program (see note 3). Accordingly, MISSA established the Prior Service Fund to account for activities under this program.

Contributions to the Retirement Fund are governed by the Social Security Act of 1990, as amended, which imposes a tax on the quarterly income of every employee, not currently subject to the United States Social Security System or any other recognized Social Security System, equal to seven percent of wages received.

Maximum quarterly taxable wages are \$5,000. Every employer is required to contribute an amount equal to that contributed by employees.

Retirement benefits are paid to every person who is a service insured or a fully insured individual as defined by the Social Security Act of 1990, as amended, has attained an age of sixty years and has filed an application for old age insurance benefits. Benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements, as long as they do not remarry. Eligible children who are not married and are not working may also receive benefits until age eighteen (18) or up until age twenty-two (22), if in school. Eligible children who become disabled before age twenty-two will continue to receive benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability or until retirement or death, at which time retirement or survivor benefits become available.

Effective October 1, 1990, benefits are paid monthly and are computed as follows:

- a) Pension element - two percent of index covered earnings, plus;
- b) Social element - 14.5% of the first \$11,000 of cumulative covered earnings plus 0.7% of cumulative covered earnings in excess of \$11,000 but not in excess of \$44,000. The \$11,000 and \$44,000 bend points may be increased from time to time by wage index adjustments granted by the Board of MISSA.

The minimum benefit is \$129 per month, effective October 1, 1995.

MISSA operates under the authority of a seven-member Board of Directors appointed by the Cabinet of RepMar.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities, which includes the requirement for MISSA to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements. In addition, these statements require that resources be classified for accounting and reporting purposes as held in trust for retirement, disability and survivors' benefits.

Management of MISSA has determined that per its enabling legislation, all net assets of MISSA are held in trust for retirement, disability and survivors' benefits.

A. Basis of Accounting

MISSA prepares its financial statements using the accrual basis of accounting. It recognizes employee and employer contributions as revenues in the quarter employee earnings are paid. Retirement benefits are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred regardless of when payment is made.

B. Future Liabilities and Contributions

No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

C. Cash and Time Certificates of Deposit

For the purposes of the statements of net assets, cash includes cash in checking and savings accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statements of net assets.

D. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Investments of 20% or more of the voting stock of an investee are presumed to give the investor significant influence and are carried using the equity method. Under the equity method, the investor records, as earnings or loss, its proportionate share of the investee's earnings or loss.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

E. Receivables and the Allowance for Doubtful Accounts

Contributions receivable are due from employers located within the Republic of the Marshall Islands. These receivables are not collateralized and are 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. The allowance is established through a provision for bad debts charged to expense.

F. Fixed Assets

Fixed assets with a cost that equals or exceeds \$200 are generally capitalized at the time of acquisition. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Building and improvements	5 - 15 years
Motor vehicles	3 - 5 years
Computer equipment	3 years
Furniture	5 years
Office equipment	3 years

G. Compensated Absences

Annual vacation leave is earned by all permanent employees and accumulates at the rate of one working day per bi-weekly pay period. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At September 30, 2009 and 2008, a liability existed for accumulated annual leave calculated at the employee's September 30, 2009 and 2008 pay rate in the amount of \$38,017 and \$29,648, respectively, and is included in the statements of net assets within other liabilities and accruals. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2009 and 2008 is \$19,719 and \$14,091, respectively.

H. New Accounting Standards

During fiscal year 2009, MISSA implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

I. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Reclassification

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

(3) Prior Service Benefits Program

Under the terms of a Prior Service Claim Adjudication Service Agreement between MISSA and the Trust Territory Prior Service Trust Fund, MISSA is to provide for the processing of benefit claims and to assist in the monitoring of continuing eligibility under the Prior Service Program. The Prior Service Trust Fund Administration (PSTFA) will reimburse MISSA \$2,000 per annum plus an amount equal to eight percent of the total amount of automated and manual benefit payments. Any cost for MISSA personnel who assist in searching and locating prior service documents in cooperation with the Prior Service Administration will be reimbursed on a dollar for dollar basis.

On September 15, 2005, an agreement was entered into between the PSTFA Board and the U.S. Department of the Interior to delegate the Board's obligations to and responsibility for the enrollees eligible for the Prior Service Benefits Program to the Social Security Systems of the Republic of the Marshall Islands, the Republic of Palau, the Federated States of Micronesia, and the Retirement Fund of the Commonwealth of the Northern Mariana Islands. Based on the agreement, the Social Security Administration (SSA) of each Government shall be entitled to an administrative fee not to exceed 20% of the share of allocated funds.

MISSA assumed administrative functions and received an allocation of \$129,546 and \$115,896 from PSTFA in 2009 and 2008, respectively. Total benefits and administrative expenditures for the years ended September 30, 2009 and 2008 amounted to \$117,973 and \$105,102, respectively. However, while MISSA accepts the liability for any amounts received, MISSA does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. At September 30, 2009, the amount of \$3,491 is available for future benefit payments under the Prior Service Benefits Program.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2009 and 2008

(4) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies of MISSA are governed by its enabling legislation. The Board is required to engage one or more fund custodians to assume responsibility for the physical possession of MISSA's investments. Legally authorized investments are as follows:

- (i) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the RepMar or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by MISSA's investment advisor at the time of purchase, that not more than fifteen percent (15%) percent of the market value of the Fund shall be invested in the stock of any one corporation, and that not more than twenty-five percent (25%) percent of the market value of the Fund shall be invested in any one industry group.
- (ii) Government obligations - Obligations issued or guaranteed as to principal and interest by the Government of Republic of the Marshall Islands (RepMar) or by the Government of the United States, provided that the total market value of the investments in obligations guaranteed by Government of RepMar shall at the time of purchase not exceed twenty-five percent (25%) of the total market value of all investments of MISSA, and further provided that the principal and interest on each obligation are payable in the currency of the United States.
- (iii) Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the RepMar or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is an agency of the United States Government or is rated in one of the four highest categories by two nationally recognized rating agencies in the United States. No investment under this heading shall exceed five percent of the market value of the Fund or ten percent of the outstanding value of the issue at the time of purchase.
- (iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the RepMar or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent (10%) of all investments of the Fund.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2009 and 2008

(4) Deposits and Investments, Continued

A. Deposits:

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by MISSA or its agent in the MISSA's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in MISSA's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in MISSA's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, MISSA'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. MISSA does not have a deposit policy for custodial credit risk.

As of September 30, 2009 and 2008, the carrying amount of MISSA's cash and time certificates of deposit was \$5,611,930 and \$5,998,592, respectively, and the corresponding bank balances were \$6,006,787 and \$6,420,679, respectively. As of September 30, 2009 and 2008, bank deposits in the amount of \$172,757 and \$115,767, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. MISSA 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.

B. Investments:

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by MISSA or its agent in MISSA's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in MISSA's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in MISSA's name.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2009 and 2008

(4) Deposits and Investments, Continued

B. Investments, Continued:

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of September 30, 2009 and 2008, investments at fair value are as follows:

	<u>2009</u>	<u>2008</u>
Mutual funds	\$ 39,982,483	\$ 37,668,345
Domestic equities	5,712,469	6,502,869
Foreign equities	2,611,611	2,053,725
Cash management funds	<u>55,279</u>	<u>87,906</u>
	<u>\$ 48,361,842</u>	<u>\$ 46,312,845</u>

Additionally, MISSA owns 65,285 shares of the common stock of the Bank of Marshall Islands (BOMI), which engages in commercial banking services in the Republic of the Marshall Islands, and 3,000 shares of the common stock of Marshall Islands Service Corporation (MISC), which shareholders are comprised primarily of BOMI shareholders. The investment in BOMI is accounted for on the equity method since the investment constitutes a 31% ownership share. At September 30, 2009 and 2008, MISSA's investment in BOMI amounted to \$8,409,973 and \$7,673,887, respectively. The investment in MISC is accounted for at cost since the fair market value is not readily available. At September 30, 2009 and 2008, MISSA's investment in MISC amounted to \$30,000.

As of September 30, 2009 and 2008, MISSA maintained bank deposits and a time certificate of deposit with BOMI totaling \$5,834,030 and \$6,304,912, respectively.

A summary of unaudited financial information as of and for the nine months ended September 30, 2009, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>63,129,385</u>
Liabilities	\$ <u>36,810,382</u>
Net earnings	\$ <u>3,332,472</u>

As of September 30, 2009 and 2008, net increase in fair value of investments included equity in net earnings of BOMI amounting to \$1,029,868 and \$1,047,358, respectively.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At September 30, 2009 and 2008, MISSA's investment portfolio did not include investments in debt securities. Accordingly, MISSA is not exposed to credit risk.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2009 and 2008

(4) Deposits and Investments, Continued

B. Investments, Continued:

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, MISSA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. MISSA's investments are held and administered by trustees. MISSA's custodian holds investment securities in MISSA's name. MISSA's custodian is not affiliated or related to investment brokers. Accordingly, these investments are not exposed to custodial credit risk.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for MISSA. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. There was no concentration of credit risk for investments as of September 30, 2009 and 2008.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. MISSA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At September 30, 2009 and 2008, MISSA's investment portfolio did not include investments in debt securities. Accordingly, MISSA is not exposed to interest rate risk.

(5) Receivables

Receivables as of September 30, 2009 and 2008, including applicable allowances for doubtful accounts, are as follows:

	<u>2009</u>	<u>2008</u>
Court judgments	\$ 4,880,773	\$ 3,705,577
Contributions	3,033,612	2,092,371
Notes	1,304,047	1,543,157
Interest	122,205	98,725
Other	<u>91,587</u>	<u>120,927</u>
	9,432,224	7,560,757
Less allowance for doubtful accounts	<u>(5,785,867)</u>	<u>(3,588,452)</u>
	\$ <u>3,646,357</u>	\$ <u>3,972,305</u>

Court judgments receivable represent amounts due from employers for delinquent contributions that have been referred to attorneys for collection and have been adjudicated by the Court. These amounts are composed of unpaid contributions together with penalties and interest, and attorney fees and are subject to interest of 9% per annum. Notes receivable represent amounts due from employers for delinquent contributions wherein the employer has entered into a promissory note agreement with MISSA with stipulated repayment terms and conditions including interest of 12% per annum.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements September 30, 2009 and 2008

(6) Due to/from Ministry of Health

On November 4, 2003, MISSA entered into a debt reduction agreement with the Ministry of Health (MOH) for the repayment of certain receivables in the amount of \$1,177,964. Under the terms of this agreement, MOH is required to make interest-free quarterly payments of \$60,000, commencing on January 1, 2004. As of September 30, 2009 and 2008, the amount receivable from MOH under this agreement amounted to \$0 and \$37,964, respectively. Receivables from MOH were repaid in full during the year ended September 30, 2009.

As of September 30, 2009 and 2008, MISSA recorded amounts payable to MOH of \$1,027,268 and \$657,243, respectively, which represented contributions collected by MISSA unremitted to MOH at the respective year ends.

(7) Capital Assets

Capital asset activity for the years ended September 30, 2009 and 2008, was as follows:

	October 1, <u>2008</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2009</u>
Buildings and improvements	\$ 497,367	\$ 7,800	\$ -	\$ 505,167
Motor vehicles	96,682	37,550	(29,512)	104,720
Computer equipment	91,694	3,828	(1,400)	94,122
Furniture	55,749	755	-	56,504
Office equipment	<u>86,034</u>	<u>2,101</u>	<u>(4,403)</u>	<u>83,732</u>
	827,526	52,034	(35,315)	844,245
Less accumulated depreciation and amortization	<u>(747,329)</u>	<u>(43,523)</u>	<u>34,758</u>	<u>(756,094)</u>
	<u>\$ 80,197</u>	<u>\$ 8,511</u>	<u>\$ (557)</u>	<u>\$ 88,151</u>
	October 1, <u>2007</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2008</u>
Buildings and improvements	\$ 489,754	\$ 7,613	\$ -	\$ 497,367
Motor vehicles	95,304	17,495	(16,117)	96,682
Computer equipment	92,620	1,969	(2,895)	91,694
Furniture	54,432	1,592	(275)	55,749
Office equipment	<u>75,922</u>	<u>11,079</u>	<u>(967)</u>	<u>86,034</u>
	808,032	39,748	(20,254)	827,526
Less accumulated depreciation and amortization	<u>(724,578)</u>	<u>(43,005)</u>	<u>(20,254)</u>	<u>(747,329)</u>
	<u>\$ 83,454</u>	<u>\$ (3,257)</u>	<u>\$ -</u>	<u>\$ 80,197</u>

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2009 and 2008

(8) Contingency

In June 2009, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2008. The valuation reported actuarial accrued liabilities for the Retirement Fund of \$225,806,000. As of September 30, 2009, MISSA recorded total fund equity of \$64,879,269 in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that MISSA may be unable to meet its future benefit obligations.

(9) Risk Management

MISSA 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. MISSA 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. MISSA is also exposed to investment risk. This risk is limited by diversification of the portfolio, establishment and monitoring of investment policies and guidelines, and monitoring of investment performance. In addition, investment consultants monitor MISSA's activities and advise the Board of Directors.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combining Schedule of Net Assets
September 30, 2009

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total Before Elimination</u>	<u>Elimination</u>	<u>Total</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 753,096	\$ 83,082	\$ 836,178	\$ -	\$ 836,178
Time certificates of deposit	<u>4,775,752</u>	<u>-</u>	<u>4,775,752</u>	<u>-</u>	<u>4,775,752</u>
Receivables, net:					
Contributions	2,114,800	-	2,114,800	-	2,114,800
Other	<u>1,601,360</u>	<u>596</u>	<u>1,601,956</u>	<u>(70,399)</u>	<u>1,531,557</u>
Total receivables, net	<u>3,716,160</u>	<u>596</u>	<u>3,716,756</u>	<u>(70,399)</u>	<u>3,646,357</u>
Due from the Ministry of Health	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investments:					
Cash management	55,279	-	55,279	-	55,279
Stocks	16,764,053	-	16,764,053	-	16,764,053
Mutual funds	<u>39,982,483</u>	<u>-</u>	<u>39,982,483</u>	<u>-</u>	<u>39,982,483</u>
Total investments	<u>56,801,815</u>	<u>-</u>	<u>56,801,815</u>	<u>-</u>	<u>56,801,815</u>
Fixed assets, net	<u>88,151</u>	<u>-</u>	<u>88,151</u>	<u>-</u>	<u>88,151</u>
Total assets	<u>66,134,974</u>	<u>83,678</u>	<u>66,218,652</u>	<u>(70,399)</u>	<u>66,148,253</u>
<u>LIABILITIES</u>					
Accounts payable	72,916	-	72,916	27	72,943
Other liabilities and accruals	155,521	80,187	235,708	(70,426)	165,282
Due to the Ministry of Health	<u>1,027,268</u>	<u>-</u>	<u>1,027,268</u>	<u>-</u>	<u>1,027,268</u>
Total liabilities	<u>1,255,705</u>	<u>80,187</u>	<u>1,335,892</u>	<u>(70,399)</u>	<u>1,265,493</u>
<u>NET ASSETS</u>					
Held in trust for retirement, disability and survivors' benefits	<u>\$ 64,879,269</u>	<u>\$ 3,491</u>	<u>\$ 64,882,760</u>	<u>\$ -</u>	<u>\$ 64,882,760</u>

See Accompanying Independent Auditors' Report.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combining Schedule of Changes in Net Assets
Year Ended September 30, 2009

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total Before Elimination</u>	<u>Elimination</u>	<u>Total</u>
Additions:					
Contributions:					
Private employees	\$ 7,912,754	\$ -	\$ 7,912,754	\$ -	\$ 7,912,754
Government employees	3,896,499	-	3,896,499	-	3,896,499
Penalties and interest	2,073,541	-	2,073,541	-	2,073,541
Total contributions	<u>13,882,794</u>	<u>-</u>	<u>13,882,794</u>	<u>-</u>	<u>13,882,794</u>
Less allowance for doubtful accounts	1,278,603	-	1,278,603	-	1,278,603
Net contributions income	<u>12,604,191</u>	<u>-</u>	<u>12,604,191</u>	<u>-</u>	<u>12,604,191</u>
Investment income:					
Net change in the fair value of investments	2,132,085	-	2,132,085	-	2,132,085
Dividends	1,054,231	-	1,054,231	-	1,054,231
Interest	265,646	-	265,646	-	265,646
Total investment income	<u>3,451,962</u>	<u>-</u>	<u>3,451,962</u>	<u>-</u>	<u>3,451,962</u>
Less investment expense:					
Investment management and custodial fees	104,524	-	104,524	-	104,524
Net investment income	<u>3,347,438</u>	<u>-</u>	<u>3,347,438</u>	<u>-</u>	<u>3,347,438</u>
Other	251,222	129,546	380,768	(18,170)	362,598
Total additions	<u>16,202,851</u>	<u>129,546</u>	<u>16,332,397</u>	<u>(18,170)</u>	<u>16,314,227</u>
Deductions:					
Benefit payments:					
Retirement	7,756,397	48,988	7,805,385	-	7,805,385
Survivors	4,684,588	49,153	4,733,741	-	4,733,741
Disability	1,037,927	-	1,037,927	-	1,037,927
Lump sum	68,121	-	68,121	-	68,121
Total benefit payments	<u>13,547,033</u>	<u>98,141</u>	<u>13,645,174</u>	<u>-</u>	<u>13,645,174</u>
Administrative	971,292	19,832	991,124	(18,170)	972,954
Total deductions	<u>14,518,325</u>	<u>117,973</u>	<u>14,636,298</u>	<u>(18,170)</u>	<u>14,618,128</u>
Change in net assets	1,684,526	11,573	1,696,099	-	1,696,099
Net assets at beginning of year	63,194,743	(8,082)	63,186,661	-	63,186,661
Net assets at end of year	<u>\$ 64,879,269</u>	<u>\$ 3,491</u>	<u>\$ 64,882,760</u>	<u>\$ -</u>	<u>\$ 64,882,760</u>

See Accompanying Independent Auditors' Report.

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

Board of Directors
Marshall Islands Social Security Administration:

We have audited the financial statements of the Marshall Islands Social Security Administration (MISSA) as of and for the year ended September 30, 2009, and have issued our report thereon dated November 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MISSA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MISSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MISSA's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

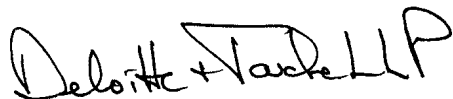
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MISSA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of MISSA in a separate letter dated November 12, 2009.

This report is intended solely for the information and use of the Board of Directors, management, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Stauck LLP". The signature is written in a cursive, slightly stylized font.

November 12, 2009

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Unresolved Prior Year Findings
Year Ended September 30, 2009

There were no unresolved audit findings from prior year audits of MISSA.