

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

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION

Years Ended September 30, 2010 and 2009
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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, 2010 and 2009, 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.

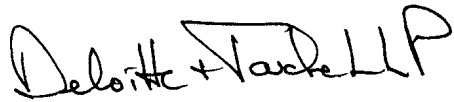
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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, 2010 and 2009, 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 7 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 20) and Combining Schedule of Changes in Net Assets (page 21) as of and for the year ended September 30, 2010 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, 2010 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 22, 2010, 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 + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

November 22, 2010

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2010

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, 2010 and 2009. 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 8 and the Statements of Changes in Net Assets on page 9 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 2010 has been a challenging year for MISSA with collections flattening, benefit payments continuing to increase and \$1 million being liquidated from MISSA's Time Certificate of Deposit at BOMI. The Administration had expected and prepared for this cash shortage in early 2006. The recent liquidation of \$1 million is the first of its kind in the last decade as MISSA has not tapped into its Trust Fund in a span of ten years. Investments fared well this fiscal year with net investment income at \$5,490,636, which is an increase of 64.03% when compared to the net investment income of \$3,347,438 in the previous fiscal year.

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. Furthermore, 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 \$63 million. It was also mentioned that based on current provisions and worker demographics, the Trust will be diminished by 2022. The deficit will come even sooner should the workforce continue to decrease.

As of September 30, 2010, MISSA's total net assets held in reserve for future benefits have increased to \$68,543,988.

MISSA has no debt and did not have material activity in its capital assets. Please refer to the notes to the financial statements for additional information concerning these matters.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2010

A summary of MISSA's Statements of Net Assets as of September 30, 2010, 2009 and 2008 is presented below:

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash	\$ 763,320	\$ 836,178	\$ 1,452,587
Time certificates of deposit	4,065,200	4,775,752	4,546,005
Receivables, net:			
Contributions	2,695,054	2,114,800	2,092,371
Other	1,069,846	1,531,557	1,879,934
Due from affiliates, net	10,042	-	37,964
Investments:			
Cash Management	60,098	55,279	87,906
Stocks	17,871,165	16,764,053	16,260,481
Mutual funds	43,791,256	39,982,483	37,668,345
Fixed assets, net	<u>54,858</u>	<u>88,151</u>	<u>80,197</u>
 Total assets	 <u>70,380,839</u>	 <u>66,148,253</u>	 <u>64,105,790</u>

LIABILITIES

Accounts payable	41,456	72,943	100,500
Other liabilities and accruals	176,154	165,282	161,386
Due to affiliates	<u>1,619,241</u>	<u>1,027,268</u>	<u>657,243</u>
 Total liabilities	 <u>1,836,851</u>	 <u>1,265,493</u>	 <u>919,129</u>

NET ASSETS

Held in trust for future benefits	\$ <u>68,543,988</u>	\$ <u>64,882,760</u>	\$ <u>63,186,661</u>
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A summary of MISSA's Statements of Changes in Net Assets for the years ended September 30, 2010, 2009 and 2008 is presented below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Additions:			
Contributions	\$ 13,118,836	\$ 12,604,191	\$ 13,471,032
Net investment income (losses)	5,490,636	3,347,438	(6,606,530)
Other	<u>488,192</u>	<u>362,598</u>	<u>859,042</u>
 Total additions	 <u>19,097,664</u>	 <u>16,314,227</u>	 <u>7,723,544</u>
Deductions:			
Benefit payments	14,551,142	13,645,174	12,548,715
Administrative	<u>885,294</u>	<u>972,954</u>	<u>1,016,370</u>
 Total deductions	 <u>15,436,436</u>	 <u>14,618,128</u>	 <u>13,565,085</u>
 Change in net assets	 \$ <u>3,661,228</u>	 \$ <u>1,696,099</u>	 \$ <u>(5,841,541)</u>

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2010

Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in MISSA's report on the audit of its financial statements dated November 12, 2009. Such Management Discussion and Analysis explains the major factors impacting the fiscal year 2009 financial statements and can be obtained from MISSA's Administrator via the contact information on page 7.

Additions:

The Administration had expected contributions to remain flat this fiscal year due to the effect of financial crisis both within the country and around the world. Contributions for the year totaled \$13,118,836 or 2.92% higher than the budget. The RMI Government, through the Ministry of Finance, has consistently paid its bi-weekly remittances on time and its contributions declined by less than 1% this fiscal year from \$3,896,499 in fiscal year 2009 to \$3,874,061 in fiscal year 2010. Private contributions increased by 11.42% from \$7,912,754 in fiscal year 2009 to \$8,816,591 in fiscal year 2010. Penalties and interest decreased from \$2,073,541 in fiscal year 2009 to \$428,184 in fiscal year 2010, or a decrease of 79.35% which was due to a prior period adjustment in judgment receivable made in fiscal year 2009. In fiscal year 2009, there was a provision for bad debts expense of \$1,278,603 that pertains to a prior year adjustment in penalties, and was shown as a direct deduction to revenues for that year. Other income has increased by 34.64% from \$362,598 in fiscal year 2009 to \$488,192 in fiscal year 2010.

The following table presents MISSA's investment allocations as of September 30, 2010 with comparative figures in 2009.

Investment Type	As of September 30, 2010				As of September 30, 2009			
	Weight	Target	Market Value (\$'000)	Target Value (\$'000)	Weight	Target	Market Value (\$'000)	Target Value (\$'000)
Small Cap	5.1%	4.8%	\$ 2,716	\$ 2,532	5.6%	4.8%	\$ 2,732	\$ 2,322
Small Cap Value	7.7%	7.2%	\$ 4,086	\$ 3,798	8.7%	7.2%	\$ 4,225	\$ 3,482
Large Cap	5.2%	4.8%	\$ 2,724	\$ 2,532	5.4%	4.8%	\$ 2,590	\$ 2,321
Large Cap Value	7.7%	7.2%	\$ 4,079	\$ 3,798	8.4%	7.2%	\$ 4,052	\$ 3,482
Int'l Small Cap	5.1%	4.5%	\$ 2,707	\$ 2,374	5.5%	4.5%	\$ 2,657	\$ 2,176
Int'l Small Cap Value	6.0%	5.4%	\$ 3,164	\$ 2,848	6.8%	5.4%	\$ 3,282	\$ 2,612
Int'l Large Cap	5.0%	4.5%	\$ 2,624	\$ 2,374	5.4%	4.5%	\$ 2,612	\$ 2,176
Int'l Large Cap Value	6.0%	5.4%	\$ 3,155	\$ 2,848	6.7%	5.4%	\$ 3,260	\$ 2,612
Emerging Markets	4.9%	4.2%	\$ 2,592	\$ 2,215	4.8%	4.2%	\$ 2,335	\$ 2,031
Domestic Real Estate	5.0%	4.5%	\$ 2,633	\$ 2,374	5.2%	4.5%	\$ 2,509	\$ 2,176
International Real Estate	5.1%	4.5%	\$ 2,690	\$ 2,374	5.3%	4.5%	\$ 2,567	\$ 2,176
Commodities	3.0%	3.0%	\$ 1,576	\$ 1,582	2.7%	3.0%	\$ 1,284	\$ 1,451
Bonds	34.1%	39.75%	\$ 17,942	\$ 20,967	29.4%	39.75%	\$ 14,202	\$ 19,224
Cash and Equivalents	0.1%	0.25%	\$ 60	\$ 132	0.1%	0.25%	\$ 55	\$ 121
TOTAL	100%	100%	\$ 52,748	\$ 52,748	100%	100%	\$ 48,362	\$ 48,362

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, 2010, the fair market value of MISSA's investments in the U.S. and International markets increased by \$3,384,887. A total of \$1,125,405 in dividends and interest payments were received and subsequently reinvested. Investment management fees have increased by 21.3% from \$104,524 in 2009 to \$126,783 in 2010.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2010

MISSA presently holds a 31% interest in BOMI. For the year ended September 30, 2010, MISSA's 65,285 shares at BOMI increased in value by \$828,234 representing equity earnings. Annual dividend payments of \$293,783 and \$293,783 were received from BOMI in April 2010 and 2009, respectively. As of September 30, 2010 and 2009, the shares at BOMI were valued at \$8,944,425 and \$8,409,973, respectively. Furthermore, MISSA holds 3,000 shares of stocks at \$10.00 par value from the Marshall Islands Service Corporation.

Deductions:

Deductions represent benefit payments and administrative expenses. For the year ended September 30, 2010, total deductions amounted to \$15,436,436, which is 5.6% higher than the \$14,618,128 paid in the previous year. Due to the implementation of various restrictions and controls on eligibility, benefit payments for fiscal year 2010 increased steadily by 6.64% to a total of \$14,551,142 as compared to \$13,645,174 paid in fiscal year 2009. Administrative expenses were maintained within the budgetary limits. For the years ended September 30, 2010 and 2009, MISSA's administrative expenses totaled \$885,294 and \$972,954, 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 ECONOMIC OUTLOOK

Fiscal Year 2010 ended with MISSA facing one of the most challenging years in the past decade. Carrying forward from the last fiscal year, the Administration faces an even more difficult FY 2011, when it expects a more substantial cash flow crisis than that experienced in FY 2010. Before the end of FY 2011, another \$2.7 million is projected to be withdrawn from MISSA's cash reserves. These cash shortfalls are evident in the Administration's latest actuarial report which gave the Administration's life expectancy of just a little more than 10 years if no reforms are enforced in the present social security system in the country.

MISSA's approved budgeted revenues for FY 2011 stand at \$12.05 million while projected benefit payments amount to \$15.8 million. Another \$937 thousand was earmarked for administrative expenses. This simple equation translates to a deficit of more than \$4 million. The only way to reverse this gloomy scenario is if MISSA's investments perform extremely well in FY 2011 or the RMI Government injects enough cash to help MISSA sustain its benefit programs without dipping into its trust funds. Although MISSA's local investments have continually performed above par in past years, MISSA's investments outside the country remain volatile and uncertain.

The Administration is now faced with the formidable task of continuing to provide social security benefits to its current beneficiaries but without any lifeline to cling to. Delinquency remains at critical levels despite MISSA's aggressive collection campaign and legal remedies. Contributions remain on a downward trend as unemployment lingers on. This situation is further exacerbated by massive migration to the United States by potential social security contributors while the labor force in Kwajalein and Ebeye continue to be threatened with lay-offs.

To lessen administrative costs and expenses, several cost cutting measures were adopted by the MISSA Board, management and staff since last fiscal year and the measures helped but only to a certain degree.

Fortunately, the President and his Cabinet acted decisively and approved the establishment of the Social Security Reform Commission (SSRC) which is represented both by the private and public sectors. The main objectives of the establishment of the SSRC are as follows:

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2010

1. Assess the financial condition of the Retirement Fund in conjunction with a comprehensive review of parts IV to VIII of the Social Security Act of 1990, as amended (MIRC Title 49 Chapter 1). With specific focus on:
 - a) Sufficiency of 7% SS tax rate in light of steady growth of benefits & stagnant workforce;
 - b) Cost analysis of various benefit programs (retirement, medical retirement, survivors) and lump sum;
 - c) Review soundness of investment strategy, advisors and potential for increasing investments in the RMI (local vs. offshore);
 - d) Work with MISSA management to suggest a possible percentage reduction in administrative expenses.
2. Provide recommendations to the Cabinet on amendments to the Social Security Act, such recommendations will be accompanied with cost analysis of the changes and their financial impact on the Retirement Fund in the immediate and long term. With specific focus on:
 - a) Specific amendments to provisions on contributions, investments, benefits, offenses and penalties, etc.
3. Feasibility study on converting younger workers to a defined contribution plan and design a new Defined Contribution (DC) plan. With specific focus on:
 - a) Focus on a buy out scheme for younger workers (i.e. cashing out earned quarters from Retirement corpus and transferring dollar value in new DC plan);
 - b) Establish contribution & benefits scheme to new DC plan;
 - c) Provide an impact study on the Retirement Fund if migration of younger workers to DC Plan occurs and remedial steps to prevent further losses in contributions to the Retirement Fund in order to ensure its viability.
4. Public awareness campaign/engagement.

On the positive side, the Marshall Islands Government continued to be the main revenue driver in the past several years together with the Majuro Atoll Local Government, which has paid \$3.4 million since January 2008. The Kwajalein Atoll Local Government also signified its intention to lessen its debts to MISSA when it agreed to assign to the Administration 60% of the 40% on the 3% Immovable Property Tax in Kwajalein. The top 20 employers remained consistent in their quarterly remittances and with the aggressive legal assistance being provided by MISSA's legal counsel, delinquency cases will continue to be filed against delinquent employers.

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash	\$ 763,320	\$ 836,178
Time certificates of deposit	<u>4,065,200</u>	<u>4,775,752</u>
Receivables, net:		
Contributions	2,695,054	2,114,800
Other	<u>1,079,888</u>	<u>1,531,557</u>
Total receivables, net	<u>3,774,942</u>	<u>3,646,357</u>
Investments:		
Cash management	60,098	55,279
Stocks	17,871,165	16,764,053
Mutual funds	<u>43,791,256</u>	<u>39,982,483</u>
Total investments	<u>61,722,519</u>	<u>56,801,815</u>
Fixed assets, net	<u>54,858</u>	<u>88,151</u>
Total assets	<u>70,380,839</u>	<u>66,148,253</u>

LIABILITIES

Accounts payable	41,456	72,943
Other liabilities and accruals	176,154	165,282
Due to the Ministry of Health	<u>1,619,241</u>	<u>1,027,268</u>
Total liabilities	<u>1,836,851</u>	<u>1,265,493</u>

Contingency

NET ASSETS

Held in trust for retirement, disability and survivors' benefits	<u>\$ 68,543,988</u>	<u>\$ 64,882,760</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, 2010 and 2009

	2010	2009
Additions:		
Contributions:		
Private employees	\$ 8,816,591	\$ 7,912,754
Government employees	3,874,061	3,896,499
Penalties and interest	428,184	2,073,541
Total contributions	13,118,836	13,882,794
Less allowance for doubtful accounts	-	1,278,603
Net contributions	13,118,836	12,604,191
Investment income:		
Net change in the fair value of investments	4,213,121	2,132,085
Dividends	1,125,341	1,054,231
Interest	278,957	265,646
Total investment income	5,617,419	3,451,962
Less investment expense:		
Investment management and custodial fees	126,783	104,524
Net investment income	5,490,636	3,347,438
Other	488,192	362,598
Total additions	19,097,664	16,314,227
Deductions:		
Benefit payments:		
Retirement	8,501,345	7,805,385
Survivors	4,965,228	4,733,741
Disability	982,804	1,037,927
Lump sum	101,765	68,121
Total benefit payments	14,551,142	13,645,174
Administrative	885,294	972,954
Total deductions	15,436,436	14,618,128
Change in net assets	3,661,228	1,696,099
Net assets at beginning of year	64,882,760	63,186,661
Net assets at end of year	\$ 68,543,988	\$ 64,882,760

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2010 and 2009

(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, 2010 and 2009

(2) Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) 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*, 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, 2010 and 2009

(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, 2010 and 2009, a liability existed for accumulated annual leave calculated at the employee's September 30, 2010 and 2009 pay rate in the amount of \$38,024 and \$38,017, 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, 2010 and 2009 is \$19,137 and \$19,719, respectively.

H. New Accounting Standards

During fiscal year 2010, MISSA implemented the following pronouncements:

- GASB 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.
- GASB 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.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

- GASB 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.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of MISSA.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

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.

(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 \$145,686 and \$129,546 from PSTFA in 2010 and 2009, respectively. Total benefits and administrative expenditures for the years ended September 30, 2010 and 2009 amounted to \$124,238 and \$117,973, 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, 2010, the amount of \$24,939 is available for future benefit payments under the Prior Service Benefits Program.

(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:

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2010 and 2009

(4) Deposits and Investments, Continued

- (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.

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 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.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2010 and 2009

(4) Deposits and Investments, Continued

A. Deposits, Continued:

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, 2010 and 2009, the carrying amount of MISSA's cash and time certificates of deposit was \$4,828,520 and \$5,611,930, respectively, and the corresponding bank balances were \$5,207,189 and \$6,006,787, respectively. As of September 30, 2010 and 2009, bank deposits in the amount of \$109,069 and \$172,757, 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.

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, 2010 and 2009, investments at fair value are as follows:

	<u>2010</u>	<u>2009</u>
Mutual funds	\$ 43,791,256	\$ 39,982,483
Domestic equities	6,272,151	5,712,469
Foreign equities	2,624,589	2,611,611
Cash management funds	<u>60,098</u>	<u>55,279</u>
	<u>\$ 52,748,094</u>	<u>\$ 48,361,842</u>

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2010 and 2009

(4) Deposits and Investments, Continued

B. Investments, Continued:

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, 2010 and 2009, MISSA's investment in BOMI amounted to \$8,944,425 and \$8,409,973, respectively. The investment in MISC is accounted for at cost since the fair market value is not readily available. At September 30, 2010 and 2009, MISSA's investment in MISC amounted to \$30,000.

As of September 30, 2010 and 2009, MISSA maintained bank deposits and time certificates of deposit with BOMI totaling \$5,098,119 and \$5,834,030, respectively.

A summary of unaudited financial information as of and for the nine months ended September 30, 2010, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>65,948,905</u>
Liabilities	\$ <u>37,987,773</u>
Net earnings	\$ <u>1,978,773</u>

As of September 30, 2010 and 2009, net increase in fair value of investments included equity in net earnings of BOMI amounting to \$828,234 and \$1,029,868, 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, 2010 and 2009, MISSA's investment portfolio did not include investments in debt securities. Accordingly, MISSA is not exposed to credit risk.

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, 2010 and 2009.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2010 and 2009

(4) Deposits and Investments, Continued

B. Investments, Continued:

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, 2010 and 2009, 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, 2010 and 2009, including applicable allowances for doubtful accounts, are as follows:

	<u>2010</u>	<u>2009</u>
Court judgments	\$ 4,470,356	\$ 4,880,773
Contributions	4,834,151	3,033,612
Notes	1,191,262	1,304,047
Interest	106,200	122,205
Other	<u>70,113</u>	<u>91,587</u>
	10,672,082	9,432,224
Less allowance for doubtful accounts	<u>(6,897,140)</u>	<u>(5,785,867)</u>
	\$ <u>3,774,942</u>	\$ <u>3,646,357</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.

(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. Receivables from MOH under this agreement were repaid in full during the year ended September 30, 2009.

As of September 30, 2010 and 2009, MISSA recorded amounts payable to MOH of \$1,619,241 and \$1,027,268, respectively, which represented contributions collected by MISSA unremitted to MOH at the respective year ends.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements September 30, 2010 and 2009

(7) Capital Assets

Capital asset activity for the years ended September 30, 2010 and 2009, was as follows:

	October 1, <u>2009</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2010</u>
Buildings and improvements	\$ 505,167	\$ -	\$ -	\$ 505,167
Motor vehicles	104,720	-	-	104,720
Computer equipment	94,122	1,920	(2,890)	93,152
Furniture	56,504	504	-	57,008
Office equipment	<u>83,732</u>	<u>356</u>	<u>(13,652)</u>	<u>70,436</u>
	844,245	2,780	(16,542)	830,483
Less accumulated depreciation and amortization	<u>(756,094)</u>	<u>(36,073)</u>	<u>16,542</u>	<u>(775,625)</u>
	<u>\$ 88,151</u>	<u>\$ (33,293)</u>	<u>\$ -</u>	<u>\$ 54,858</u>
	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>

(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, 2010, MISSA recorded total fund equity of \$68,519,049 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, 2010

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total Before Elimination</u>	<u>Elimination</u>	<u>Total</u>
<u>ASSETS</u>					
Cash	\$ 734,219	\$ 29,101	\$ 763,320	\$ -	\$ 763,320
Time certificates of deposit	<u>4,065,200</u>	<u>-</u>	<u>4,065,200</u>	<u>-</u>	<u>4,065,200</u>
Receivables, net:					
Contributions	2,695,054	-	2,695,054	-	2,695,054
Other	<u>1,081,431</u>	<u>-</u>	<u>1,081,431</u>	<u>(1,543)</u>	<u>1,079,888</u>
Total receivables, net	<u>3,776,485</u>	<u>-</u>	<u>3,776,485</u>	<u>(1,543)</u>	<u>3,774,942</u>
Investments:					
Cash management	60,098	-	60,098	-	60,098
Stocks	17,871,165	-	17,871,165	-	17,871,165
Mutual funds	<u>43,791,256</u>	<u>-</u>	<u>43,791,256</u>	<u>-</u>	<u>43,791,256</u>
Total investments	<u>61,722,519</u>	<u>-</u>	<u>61,722,519</u>	<u>-</u>	<u>61,722,519</u>
Fixed assets, net	<u>54,858</u>	<u>-</u>	<u>54,858</u>	<u>-</u>	<u>54,858</u>
Total assets	<u>70,353,281</u>	<u>29,101</u>	<u>70,382,382</u>	<u>(1,543)</u>	<u>70,380,839</u>
<u>LIABILITIES</u>					
Accounts payable	41,456	-	41,456	-	41,456
Other liabilities and accruals	173,535	4,162	177,697	(1,543)	176,154
Due to the Ministry of Health	<u>1,619,241</u>	<u>-</u>	<u>1,619,241</u>	<u>-</u>	<u>1,619,241</u>
Total liabilities	<u>1,834,232</u>	<u>4,162</u>	<u>1,838,394</u>	<u>(1,543)</u>	<u>1,836,851</u>
<u>NET ASSETS</u>					
Held in trust for retirement, disability and survivors' benefits	<u>\$ 68,519,049</u>	<u>\$ 24,939</u>	<u>\$ 68,543,988</u>	<u>\$ -</u>	<u>\$ 68,543,988</u>

See Accompanying Independent Auditors' Report.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combining Schedule of Changes in Net Assets
Year Ended September 30, 2010

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total Before Elimination</u>	<u>Elimination</u>	<u>Total</u>
Additions:					
Contributions:					
Private employees	\$ 8,816,591	\$ -	\$ 8,816,591	\$ -	\$ 8,816,591
Government employees	3,874,061	-	3,874,061	-	3,874,061
Penalties and interest	428,184	-	428,184	-	428,184
Total contributions	<u>13,118,836</u>	<u>-</u>	<u>13,118,836</u>	<u>-</u>	<u>13,118,836</u>
Less allowance for doubtful accounts	-	-	-	-	-
Net contributions income	<u>13,118,836</u>	<u>-</u>	<u>13,118,836</u>	<u>-</u>	<u>13,118,836</u>
Investment income:					
Net change in the fair value of investments	4,213,121	-	4,213,121	-	4,213,121
Dividends	1,125,341	-	1,125,341	-	1,125,341
Interest	278,957	-	278,957	-	278,957
Total investment income	<u>5,617,419</u>	<u>-</u>	<u>5,617,419</u>	<u>-</u>	<u>5,617,419</u>
Less investment expense:					
Investment management and custodial fees	126,783	-	126,783	-	126,783
Net investment income	<u>5,490,636</u>	<u>-</u>	<u>5,490,636</u>	<u>-</u>	<u>5,490,636</u>
Other	364,483	145,686	510,169	(21,977)	488,192
Total additions	<u>18,973,955</u>	<u>145,686</u>	<u>19,119,641</u>	<u>(21,977)</u>	<u>19,097,664</u>
Deductions:					
Benefit payments:					
Retirement	8,451,631	49,714	8,501,345	-	8,501,345
Survivors	4,912,708	52,520	4,965,228	-	4,965,228
Disability	982,804	-	982,804	-	982,804
Lump sum	101,765	-	101,765	-	101,765
Total benefit payments	<u>14,448,908</u>	<u>102,234</u>	<u>14,551,142</u>	<u>-</u>	<u>14,551,142</u>
Administrative	885,267	22,004	907,271	(21,977)	885,294
Total deductions	<u>15,334,175</u>	<u>124,238</u>	<u>15,458,413</u>	<u>(21,977)</u>	<u>15,436,436</u>
Change in net assets	3,639,780	21,448	3,661,228	-	3,661,228
Net assets at beginning of year	64,879,269	3,491	64,882,760	-	64,882,760
Net assets at end of year	<u>\$ 68,519,049</u>	<u>\$ 24,939</u>	<u>\$ 68,543,988</u>	<u>\$ -</u>	<u>\$ 68,543,988</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, 2010, and have issued our report thereon dated November 22, 2010. 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.

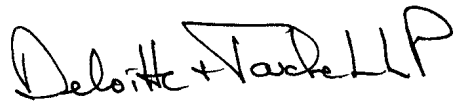
A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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*.

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 + Tatchell LLP". The signature is written in a cursive, stylized font.

November 22, 2010

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Unresolved Prior Year Findings
Year Ended September 30, 2010

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