MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION

Years Ended September 30, 2005 and 2004
Table of Contents

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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, 2005 and 2004, 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 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, 2005 and 2004, 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 6 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2006, on our consideration of MISSA's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

May 10, 2006

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis
Year Ended September 30, 2005

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 years ended September 30, 2005 and 2004. 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 reflects all of MISSA's assets and liabilities and provides information on the nature and amount of investments available to ensure payment of retirement, survivors and disability benefits. All additions to and deductions from the net assets held in trust for retirement, disability and survivors' benefits are accounted for in the Statements of Changes in Net Assets. This statement measures MISSA's success over the past year in increasing the net assets available for future benefits.

FINANCIAL ANALYSIS OF MISSA

The Statements of Net Assets on page 7 and the Statements of Changes in Net Assets on page 8 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 2005 closed with an addition of $8,290,055 to MISSA's net assets, which is an increase of $2,258,419 or 37.4%, as compared to $6,031,636 in fiscal year 2004. This increase was primarily due to the better performance of MISSA's investments wherein benchmarks were consistently being outperformed. MISSA's investment income for 2005 of $7,698,351 exceeded the previous year's total investment income of $5,959,676 or by 29.2%.

Another factor that contributed to the increase in the change in net assets of MISSA from 2004 to 2005 was the slight increase in contributions collected for the year despite the closure and downsizing of certain businesses. Specifically, during fiscal year 2005, MISSA reported contributions of $11,921,222, which is an increase of $563,781 or 5%, as compared to $11,357,441 in fiscal year 2004.

Although MISSA's assets continue to grow largely due to the remarkable performance of its investments and its aggressive implementation of tax collection and audit practices, the continued growth in benefit payments is a cause for great concern over the future sustainability of the system. A ten-year benefits projection study released in January 2006 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. The most recent actuarial valuation dated October 1, 2003 indicated an unfunded actuarial accrued liability of $158.2 million or 77%. The next actuarial valuation of the Retirement Fund is due on October 1, 2006.

As of September 30, 2005, MISSA's total net assets held in reserve for future benefits have increased to $55,870,444.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis
Year Ended September 30, 2005

A summary of MISSA's Statements of Net Assets as of September 30, 2005 and 2004 is presented below:

	2005	2004
ASSETS		
Cash and cash equivalents	$ 1,092,394	$ 1,912,722
Time certificates of deposit	3,865,788	3,680,934
Receivables, net:		
Contributions	2,251,928	1,867,027
Other	243,493	189,906
Due from affiliates, net	807,223	1,043,122
Investments:		
Mutual funds	35,105,892	30,486,218
Stocks	12,887,219	9,158,921
Cash management	205,540	111,041
Fixed assets, net	163,464	224,983
Total assets	56,622,941	48,674,874
LIABILITIES		
Accounts payable	89,463	293,275
Other liabilities and accruals	147,002	163,467
Due to Ministry of Health	516,032	637,743
Total liabilities	752,497	1,094,485
NET ASSETS		
Held in trust for future benefits	$ 55,870,444	$ 47,580,389

A summary of MISSA's Statements of Changes in Net Assets for the years ended September 30, 2005 and 2004 is presented below:

	2005	2004
Additions:		
Contributions	$ 11,921,222	$ 11,357,441
Investment income	7,698,351	5,959,676
Other	425,054	136,493
Total additions	20,044,627	17,453,610
Deductions:		
Benefit payments	10,673,660	9,747,850
Bad debts	152,684	729,780
Other	928,228	944,344
Total deductions	11,754,572	11,421,974
Change in net assets	$ 8,290,055	$ 6,031,636

Additions:

Of the total $20,044,627 in additions for 2005, $11,921,222 (or 59%) was generated from contributions, $7,698,351 (or 38%) was generated from investments, and the remaining $425,054 (or 3%) was generated from other income. The increase of 14.8% in additions for 2005 compared with 2004 is due primarily to the strong performance of MISSA's investments in the global stock market.

The following table presents MISSA's investment allocations (excluding MISSA's equity investment in Bank of Marshall Islands) as of September 30, 2005 with comparative figures in 2004.

	As of September 30, 2005				**As of September 30, 2004**			
Investment Type	**Weight %**	**Target %**	**Market Value ($'000)**	**Target Value ($'000)**	**Weight %**	**Target %**	**Market Value ($'000)**	**Target Value ($'000)**
Small Cap	5.4%	4.8%	$ 2,301	$ 2,039	6.8%	6.0%	$ 2,340	$ 2,081
Small Cap Value	8.2%	7.2%	$ 3,476	$ 3,059	10.9%	9.0%	$ 3,790	$ 3,120
Large Cap	4.8%	4.8%	$ 2,058	$ 2,039	5.6%	6.0%	$ 1,959	$ 2,081
Large Cap Value	7.9%	7.2%	$ 3,376	$ 3,059	9.2%	9.0%	$ 3,184	$ 3,120
Int'l Small Cap	5.7%	4.8%	$ 2,420	$ 2,039	7.5%	6.0%	$ 2,604	$ 2,081
Int'l Small Cap Value	7.3%	6.0%	$ 3,070	$ 2,549	8.2%	7.5%	$ 2,852	$ 2,600
Int'l Large Cap	5.3%	4.8%	$ 2,240	$ 2,039	6.1%	6.0%	$ 2,117	$ 2,081
Int'l Large Cap Value	6.8%	6.0%	$ 2,591	$ 2,549	8.4%	7.5%	$ 2,916	$ 2,600
Emerging Markets	3.0%	2.4%	$ 1,283	$ 1,019	3.8%	3.0%	$ 1,303	$ 1,040
Real Estate Inv Trust	6.8%	6.0%	$ 2,874	$ 2,549	-	-	-	-
Commodities	7.1%	6.0%	$ 3,027	$ 2,549	-	-	-	-
Bonds	31.2%	39.5%	$ 13,242	$ 16,781	33.2%	39.5%	$ 11,498	$ 13,696
Cash and Equivalents	0.5%	0.5%	$ 205	$ 212	0.3%	0.5%	$ 111	$ 174
TOTAL	**100%**	**100%**	**$ 42,484**	**$ 42,484**	**100%**	**100%**	**$ 34,674**	**$ 34,674**

The above allocations are based on the revised policy on investments, which was adopted by MISSA's Board of Directors on October 21, 2002 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 Marshall Islands (BOMI)*, 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, 2005, the fair market value of MISSA's investments in the U.S. and International markets increased by $6,542,638. In addition, a total of $1,155,713 in dividends and interest payments were made and subsequently reinvested.

* MISSA presently holds a 31% interest in the Bank of Marshall Islands. For the year ended September 30, 2005, MISSA's investment of 64,685 shares in BOMI increased in value by $631,910. Annual dividend payments of $226,397 and $161,212 were received from BOMI in April 2006 and 2005, respectively. As of September 30, 2005 and 2004, MISSA's investment in BOMI was valued at $5,714,436 and $5,082,526, respectively.

Deductions:

Deductions represent benefit payments, investment management fees, administrative expenses and a provision for doubtful accounts. For the year ended September 30, 2005, total deductions amounted to $11,754,572, which is $332,598 (or 2.9%) higher than $11,421,974 from the previous year. Benefit payments have been steadily increasing in fiscal year 2005, with MISSA paying out 9.5% in additional benefits for a total of $10,673,660 for 2005 as compared to $9,747,850 from the previous year. Provision for bad debts has decreased significantly during the current year due to a fewer number of employers entering into payment agreements with MISSA as compared with the previous year. On the other hand, investment management fees have increased by 16.5% from $84,668 in 2004 to $101,388 in 2005. Administrative expenses were maintained within the allowable limits. For the years ended September 30, 2005 and 2004, MISSA's administrative expenses totaled $826,840 and $859,676, respectively. These amounts represent 4.1% and 4.9%, respectively, of total revenues generated during these 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

The end of fiscal year 2005 marked the second year in the implementation of the amended Compact of Free Association between the Government of the Republic of the Marshall Islands and the Government of the United States of America. MISSA's anticipation in 2004 for a significant rise in tax collections met with some reservation as the year came to a close. The realization of additional revenues by MISSA from multi-million dollar Compact funded construction projects has been rather slow and at times difficult to monitor. The closure of certain locally-owned businesses negatively impacted total tax collections for the year as many local workers lost their jobs. The Health and Education sectors continue to face intrinsic challenges despite having the lion's share of Compact funds. Foreign assistance and aid from other governments, primarily Taiwan (ROC) and Japan, have been consistent and often times a stabilizing factor in times of financial crisis.

On the other hand, the continued strong performance of MISSA's investments over the last few years in spite of global economic conditions provides a reliable forecast on MISSA's ability to increase its assets into the foreseeable future. Although a significant disparity still remains between the level of MISSA's assets at fiscal year end 2005 and the actuarial accrued liabilities of the retirement system, MISSA remains confident in its ability to pay retirement benefits in 2006 and for some years to come.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Statements of Net Assets
September 30, 2005 and 2004

	2005	2004
ASSETS		
Cash and cash equivalents	$ 1,092,394	$ 1,912,722
Time certificates of deposit	3,865,788	3,680,934
Receivables, net:		
Contributions	2,251,928	1,867,027
Other	243,493	189,906
Total receivables, net	2,495,421	2,056,933
Due from affiliates, net	807,223	1,043,122
Investments:		
Cash management	205,540	111,041
Stocks	12,887,219	9,158,921
Mutual funds	35,105,892	30,486,218
Total investments	48,198,651	39,756,180
Fixed assets, net	163,464	224,983
Total assets	56,622,941	48,674,874
LIABILITIES		
Accounts payable	89,463	293,275
Other liabilities and accruals	147,002	163,467
Due to the Ministry of Health	516,032	637,743
Total liabilities	752,497	1,094,485
Contingencies		
NET ASSETS		
Held in trust for retirement, disability and survivors' benefits	$ 55,870,444	$ 47,580,389

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Statements of Changes in Net Assets
Years Ended September 30, 2005 and 2004

	2005	2004
Additions:		
Contributions:		
Private employees	$ 7,968,979	$ 7,510,551
Government employees	3,704,239	3,311,504
Penalties and interest	248,004	535,386
Total contributions	11,921,222	11,357,441
Investment income:		
Net increase in the fair value of investments	6,542,638	5,006,452
Dividends	938,346	761,283
Interest	217,367	191,941
Total investment income	7,698,351	5,959,676
Other	425,054	136,493
Total additions	20,044,627	17,453,610
Deductions:		
Benefit payments:		
Retirement	5,880,146	5,285,456
Survivors	3,476,577	3,250,176
Disability	1,275,140	1,175,556
Lump sum	41,797	36,662
Total benefit payments	10,673,660	9,747,850
Bad debts	152,684	729,780
Administrative	826,840	859,676
Investment management and custodial fees	101,388	84,668
Total deductions	11,754,572	11,421,974
Change in net assets	8,290,055	6,031,636
Net assets at beginning of year	47,580,389	41,548,753
Net assets at end of year	$ 55,870,444	$ 47,580,389

See accompanying notes to financial statements.

(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.

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 or work. 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.

(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 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 Cash Equivalents and Time Certificates of Deposit

For the purposes of the statements of net assets, cash and cash equivalents include cash in checking and savings accounts as well as short-term investments with original maturities of three months or less from the date acquired. 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 are carried 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.

Investment 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.

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.

(2) Summary of Significant Accounting Policies, Continued

E. Receivables and the Allowance for Doubtful Accounts, Continued

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 collectibility of these accounts. The allowance is established through a provision for bad debts charged to expense.

F. Fixed Assets

MISSA does not have a capitalization policy for fixed assets; however, items with a cost that equals or exceeds $100 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	20 years
Motor vehicles	3 years
Computer equipment	3 years
Office equipment	5 years
Furniture	8 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, 2005 and 2004, a liability existed for accumulated annual leave calculated at the employee's September 30, 2005 pay rate in the amount of $27,413 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, 2005 and 2004 is $15,694 and $11,832, respectively.

H. New Accounting Standards

In fiscal year 2004, MISSA implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of GASB Statement 14), which provides additional guidance on GASB Statement No.14, in determining whether an entity should be reported as a component unit based on the nature and significance of its relationship with a primary government. Implementation of this statement had no impact on the financial statements.

In fiscal year 2005, MISSA implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which 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 risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Implementation of GASB Statement No. 40 is reflected in the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

For fiscal year 2006, MISSA will be implementing the following:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*), which improves the understandability and comparability of net assets information by making the assessment of legal enforceability more uniform across governments. This Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. Management does not believe that the implementation of this Statement will have material effect on the financial statements of MISSA.

GASB Statement No. 47, *Accounting for Termination Benefits*, which requires employees to disclose a description of the termination benefit arrangement, the cost of termination benefits, and significance methods and assumptions used to determine termination benefits liabilities. Management does not believe that the implementation of this Statement will have material effect on the financial statements of MISSA.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. 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.

(2) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

In December 2004, GASB issued Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers. Management does not believe the implementation of this pronouncement 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. Reclassifications

Certain reclassifications have been made to the 2004 financial statements to conform with the 2005 presentation.

(3) 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.

(3) Deposits and Investments, Continued

(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 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, 2005 and 2004, the carrying amount of MISSA's cash and cash equivalents and time certificates of deposit was $4,958,182 and $5,593,656, respectively, and the corresponding bank balances were $5,318,005 and $5,915,622, respectively. As of September 30, 2005 and 2004, bank deposits in the amount of $9,597 and $0, respectively, were maintained in financial institutions 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.

(3) Deposits and Investments, Continued

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, 2005 and 2004, investments at fair value are as follows:

	2005	2004
Mutual funds	$ 35,105,892	$ 30,486,218
Domestic equities	4,932,331	1,959,071
Foreign equities	2,240,452	2,117,324
Cash management funds	205,540	111,041
	$ 42,484,215	$ 34,673,654

Additionally, MISSA owns 64,685 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. The investment is accounted for on the equity method since the investment constitutes a 31% ownership share. At September 30, 2005 and 2004, MISSA's investment in BOMI amounted to $5,714,436 and $5,082,526, respectively.

As of September 30, 2005 and 2004, MISSA maintained bank deposits and a time certificate of deposit with BOMI totaling $5,308,409 and $5,915,622, respectively.

A summary of audited financial information as of and for the twelve months ended December 31, 2005, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	$ 52,751,209
Liabilities	$ 34,302,227
Net earnings	$ 2,491,270

(3) Deposits and Investments, Continued

B. Investments, Continued

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At September 30, 2005 and 2004, 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. Except for mutual funds, MISSA's agent holds investment securities in MISSA's name. MISSA's agent is not affiliated or related to investment brokers. Accordingly, MISSA is 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, 2005 and 2004.

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, 2005 and 2004, MISSA's investment portfolio did not include investments in debt securities. Accordingly, MISSA is not exposed to interest rate risk.

(4) Receivables

Receivables as of September 30, 2005 and 2004, including applicable allowances for doubtful accounts, are as follows:

	2005	2004
Contributions	$ 2,251,928	$ 1,867,027
Other	4,177,453	4,495,063
	6,429,381	6,362,090
Less allowance for doubtful accounts	(3,933,960)	(4,305,157)
	$ 2,495,421	$ 2,056,933

(5) Due from Affiliates

Receivables from affiliates as of September 30, 2005 and 2004, including applicable allowances for doubtful accounts, are as follows:

	2005	2004
Ministry of Health	$ 766,691	$ 995,622
Other	441,461	166,770
	1,209,152	1,162,392
Less allowance for doubtful accounts	(401,929)	(119,270)
	$ 807,223	$ 1,043,122

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.

(6) Capital Assets

Capital asset activity for the years ended September 30, 2005 and 2003, was as follows:

	October 1, 2004	Additions	Retirements	September 30, 2005
Buildings and improvements	$ 466,797	$ 9,263	$ -	$ 476,060
Motor vehicles	79,339	-	-	79,339
Computer equipment	74,362	22,858	(5,109)	92,111
Furniture	63,897	1,471	(223)	65,145
Office equipment	66,597	6,363	(1,067)	71,893
	750,992	39,955	(6,399)	784,548
Less accumulated depreciation and amortization	(526,009)	(101,340)	6,265	(621,084)
	$ 224,983	$ (61,385)	$ (134)	$ 163,464

	October 1, 2003	Additions	Retirements	September 30, 2004
Buildings and improvements	$ 462,297	$ 4,500	$ -	$ 466,797
Motor vehicles	79,339	-	-	79,339
Computer equipment	76,213	15,092	(16,943)	74,362
Furniture	63,063	970	(136)	63,897
Office equipment	46,995	20,569	(967)	66,597
	727,907	41,131	(18,046)	750,992
Less accumulated depreciation and amortization	(372,517)	(168,894)	15,402	(526,009)
	$ 355,390	$ (127,763)	$ (2,644)	$ 224,983

(7) Contingencies

In September 2004, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2003. The valuation reported actuarial accrued liabilities for the Retirement Fund of $205,747,000. As of September 30, 2004, MISSA recorded total fund equity of $47,580,389 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.

(8) 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.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT 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, 2005, and have issued our report thereon dated May 10, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted certain matters that we reported to management of MISSA in a separate letter dated May 10, 2006.

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 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 and management, and is not intended to be and should not be used by anyone other than these specified parties.

May 10, 2006