

**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, 2015 AND 2014

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

Years Ended September 30, 2015 and 2014
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	4
III. FINANCIAL STATEMENTS:	
Statements of Fiduciary Net Position	10
Statements of Changes in Fiduciary Net Position	11
Notes to Financial Statements	12
IV. OTHER SUPPLEMENTARY INFORMATION:	
Combining Statement of Fiduciary Net Position	23
Combining Statement of Changes in Fiduciary Net Position	24
V. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	25
Unresolved Prior Year Findings	27

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Social Security Administration:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of the Marshall Islands, which comprise the statements of fiduciary net position as of September 30, 2015 and 2014, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MISSA as of September 30, 2015 and 2014, and the changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 8 to the financial statements, MISSA may be unable to meet its future benefit obligations. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

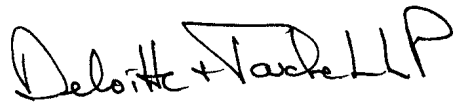
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of MISSA's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016 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 internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MISSA's internal control over financial reporting and compliance.

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

June 30, 2016

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

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, 2015 and 2014. 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 Fiduciary Net Position 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 Fiduciary Net Position. This statement measures MISSA's performance over the past year in increasing or decreasing the net position available for future benefits.

FINANCIAL ANALYSIS OF MISSA

The Statements of Fiduciary Net Position on page 10 and the Statements of Changes in Fiduciary Net Position on page 11 provide an indication of MISSA's financial condition. While these statements measure the value of MISSA's net position and the changes to them, another important factor to consider in determining the financial health of MISSA is its actuarial funded status.

The \$4.5 million investment withdrawals in FY 2015 had seriously impacted MISSA's financial position and virtually reduced its capacity to receive greater investment returns. Another \$6.5 million was earmarked for FY 2016. Investor Solutions, Inc. (ISI), MISSA's investment advisor, considered this liquidation mode as "self-destructive". To prevent future losses, ISI has recommended a change in MISSA's asset allocation from 60% Global Equity / 40% Fixed Income Portfolio to 30% Global Equity / 70% Fixed Income Portfolio. Consequently, the MISSA board approved ISI's recommendation to take effect in January 2016.

The gap between benefits and contributions continues to widen as new retirees start receiving benefits while contributions remain sluggish. This imbalance resulted to an operational deficit of \$5.5 million in FY 2015. Adding more burden to MISSA's financial woes is its poor investment performance in the world market. As of the end of September 30, 2015, MISSA's offshore investments decreased in market value by almost \$1.5 million. Fortunately, MISSA's investments in Marshall Islands Holdings, Inc. (MIHI), the parent company of the Bank of the Marshall Islands, yielded a positive return of \$1.69 million, increasing the Administration's controlling interest in MIHI to 37%.

The latest actuarial valuation report indicated an unfunded Actuarial Accrued Liability (AAL) of \$370 million or 84% as of October 1, 2014. It has increased by \$119 million when compared with the \$251 million unfunded AAL as of October 1, 2013.

As of September 30, 2015, MISSA's total net position held in reserve for future benefits amounted to \$66,832,396. MISSA has no debt and did not have material activity in its capital assets. Please refer to notes to financial statements for additional information concerning these matters.

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

A summary of MISSA's Statements of Fiduciary Net Position as of September 30, 2015, 2014 and 2013 is presented below:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ASSETS			
Cash	\$ 772,855	\$ 986,958	\$ 1,767,762
Receivables, net:			
Contributions	1,784,736	1,825,889	2,019,730
Other	678,480	570,819	485,992
Investments:			
Cash Management	53,257	15,626	49,943
Stocks	18,530,271	18,518,418	17,373,802
Mutual funds	47,805,484	52,554,234	53,280,890
Fixed assets, net	<u>72,652</u>	<u>86,151</u>	<u>55,493</u>
Total assets	<u>69,697,735</u>	<u>74,558,095</u>	<u>75,033,612</u>
LIABILITIES			
Accounts payable	82,144	55,412	157,426
Other liabilities and accruals	136,151	103,110	126,052
Due to affiliates	<u>2,647,044</u>	<u>2,032,916</u>	<u>1,761,952</u>
Total liabilities	<u>2,865,339</u>	<u>2,191,438</u>	<u>2,045,430</u>
NET POSITION			
Held in trust for future benefits	<u>\$ 66,832,396</u>	<u>\$ 72,366,657</u>	<u>\$ 72,988,182</u>

A summary of MISSA's Statements of Changes in Fiduciary Net Position for the years ended September 30, 2015, 2014 and 2013 is presented below:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Additions:			
Contributions, net	\$ 14,058,434	\$ 12,701,609	\$ 13,313,876
Net investment income	264,911	4,787,186	8,044,065
Other	<u>365,149</u>	<u>1,241,613</u>	<u>624,258</u>
Total additions	<u>14,688,494</u>	<u>18,730,408</u>	<u>21,982,199</u>
Deductions:			
Benefit payments	19,261,636	18,447,543	17,107,670
Administrative	<u>961,119</u>	<u>904,390</u>	<u>855,893</u>
Total deductions	<u>20,222,755</u>	<u>19,351,933</u>	<u>17,963,563</u>
Change in net position	<u>\$ (5,534,261)</u>	<u>\$ (621,525)</u>	<u>\$ 4,018,636</u>

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in MISSA's report on the audit of its financial statements dated July 28, 2015. Such Management Discussion and Analysis explains the major factors impacting the fiscal year 2014 financial statements and can be obtained from MISSA's Administrator via the contact information on page 9.

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

Additions:

The RMI Government, through the Ministry of Finance, consistently paid its bi-weekly remittances on time which comprised 30% of total contributions. Due to MISSA's aggressive collection efforts, total contributions increased by 10.7% from \$12,701,609 in fiscal year 2014 to \$14,058,434 the following fiscal year. Penalties and interest likewise increased from \$180,351 in fiscal year 2014 to \$1,148,204 in fiscal year 2015, or an increase of 537%.

The following table presents MISSA's investment allocations as of September 30, 2015 with comparative figures in 2014.

Investment Type	As of September 30, 2015				As of September 30, 2014			
	Weight	Target	Market Value (\$'000)	Target Value (\$'000)	Weight	Target	Market Value (\$'000)	Target Value (\$'000)
Small Cap	4.64%	4.8%	\$ 2,454	\$ 2,541	4.88%	4.8%	\$ 2,874	\$ 2,827
Small Cap Value	7.38%	7.5%	3,904	3,970	7.20%	7.2%	4,241	4,241
Large Cap	4.92%	5.4%	2,606	2,858	4.87%	4.8%	2,868	2,827
Large Cap Value	7.61%	7.8%	4,030	4,129	7.26%	7.2%	4,276	4,241
Int'l Small Cap	4.53%	4.5%	2,395	2,382	4.40%	4.5%	2,592	2,651
Int'l Small Cap Value	5.37%	5.4%	2,843	2,858	5.26%	5.4%	3,098	3,180
Int'l Large Cap	4.17%	4.5%	2,205	2,382	4.51%	4.5%	2,656	2,650
Int'l Large Cap Value	4.91%	5.4%	2,598	2,858	5.50%	5.4%	3,239	3,180
Emerging Markets	3.61%	4.2%	1,909	2,223	4.00%	4.2%	2,356	2,474
Domestic Real Estate	4.66%	4.5%	2,467	2,382	4.54%	4.5%	2,674	2,650
International Real Estate	4.60%	4.5%	2,433	2,382	4.57%	4.5%	2,692	2,650
Commodities	1.39%	1.5%	738	794	2.68%	3.0%	1,578	1,767
Bonds	42.11%	39.9%	22,296	21,119	40.30%	39.9%	23,735	23,500
Cash and Equivalents	0.10%	0.1%	53	53	0.03%	0.1%	18	59
TOTAL	100%	100%	\$52,931	\$52,931	100%	100%	\$58,897	\$58,897

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 Marshall Islands Holdings, Inc. (MIHI) and Marshall Islands Service Corporation (MISCo), all investments are limited to no-load mutual funds, unit investment trusts, Exchange Trade Funds, close-end mutual funds, and other diversified marketable securities.

During its special meeting on December 29, 2015, the MISSA Board of Directors approved a recommendation by Investor Solutions, Inc. to revise again the Administration's investment policy statement, changing the asset allocation to 30% global equity and 70% fixed income portfolio. This move is expected to cushion the impact of investment drawdowns that MISSA has undertaken since 2010 in order to meet benefit payments on time.

For the year ended September 30, 2015, the fair market value of MISSA's investments in the U.S. and international markets decreased by \$5,927,417. A total of \$1,602,563 in dividends and interest payments were received and subsequently reinvested. Investment management fees have increased by 25% from \$116,857 in 2014 to \$146,590 in 2015.

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

MISSA presently holds a 37% interest in MIHI, a local holding company incorporated on February 27, 2013. On October 31, 2013, MIHI acquired all of the outstanding common stock of Bank of the Marshall Islands (BOMI). Prior to MIHI's acquisition of BOMI, MISSA owned 65,417 shares of stocks of BOMI valued at \$10,959,846. On April 30, 2014 and May 11, 2015, MISSA received additional 92 and 100 shares, respectively, from MIHI, increasing MISSA's shares to 65,609 as of September 30, 2015. As of September 30, 2015, MISSA's interest at MIHI increased in value by \$1,228,151 representing MISSA's fiscal year net equity earnings. Annual dividend payments of \$458,402 and \$359,429 were received from MIHI in December 2014 for calendar year 2015 and in December 2013 for calendar year 2014, respectively. As of September 30, 2015 and 2014, the shares at MIHI were valued at \$13,427,578 and \$12,199,427, respectively. Furthermore, MISSA holds 3,000 shares of stocks at \$10.00 par value from MISCo.

Deductions:

Deductions represent benefit payments and administrative expenses. For the year ended September 30, 2015, total deductions amounted to \$20,222,755, which is 4.5% higher than the \$19,351,933 paid in the previous year. As more workers reach retirement age, benefit payments for fiscal year 2015 increased steadily by 4.4% to a total of \$19,261,636 as compared to \$18,447,543 paid in fiscal year 2014. Administrative expenses were maintained within the budgetary limits. For the years ended September 30, 2015 and 2014, MISSA's administrative expenses totaled \$961,119 and \$904,390, respectively. These amounts represent 6.8% and 7.1% 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

After several years of continuous appeal for government intervention and expression of grave concern, the Administration is still faced with the difficult challenge of remaining optimistic and resolute to have the Marshall Islands Retirement Fund regain its financial health. The system's projected 15% funded status as of the end of FY 2015 remains a glaring manifestation of the fund's dwindling outlook, while the country's legislators have yet to make a decisive action to prolong its life which, if no drastic change to the present system is initiated, will be fully depleted in the next five to six years.

As projected, the \$14.06 million contributions in FY 2015 were not enough to sustain benefit payments that totaled \$19.26 million in the same fiscal year, not to mention the \$0.96 million additional cash flow for administrative expenses. As a result, MISSA incurred an operational deficit of \$5.53 million after investment and other income of \$0.63 million. To meet its benefit payments on time, MISSA continues to make a series of investment drawdowns that totaled \$4.5 million in FY 2015 while another \$6 million drawdown is expected in FY 2016. In FY 2014, MISSA withdrew \$4.0 million. These drawdowns shorten the portfolio's investment horizon and reduce its ability to take risk. Expected investment returns are not projected to be able to cover the annual cash flow shortfalls. Therefore, the total assets in the system are projected to decline rapidly.

Considering the country's stagnant economy, worsening unemployment and volatility of the world market, the Administration continues to project a widening gap between contributions and benefits, and lower investment returns of as low as 3%-4%, which is less than half of what MISSA investments used to yield in the past few years. Thus, MISSA is also considering the option to invest locally as a way to generate more investment return and serve local needs.

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

It is also important to note that the present benefit formula has its loopholes and needs to be changed to prevent retirees who have received multiple times their benefits vis-à-vis their contributions, from receiving further benefits. A recent actuarial study shows that while current beneficiaries have received, on average, four (4) times of their lifetime contributions, the current plan design projects that these recipients will collect an additional nine (9) times of their lifetime contributions. On the other hand, it is likely that a large portion of the workers who have been paying taxes to fund the System for many years but have not started receiving benefits yet, will not receive the promised level of benefits from the System.

MISSA has engaged the services of an investment consultant and actuary who are assisting the Administration design a number of restructuring options that will ensure a longer plan adequacy. After a series of consultations, a consensus was established on the following principles in restructuring the System's benefits:

- Establish a lifetime maximum benefit for participants, considering the disparities between existing and future beneficiaries. Given the challenges in funding and demographic outlook, this maximum was set at three (3) times of the lifetime contributions by each employee. As a matter of perspective, to accumulate assets equal to three (3) times of annual contributions made in equal installments for 30 years, the investments would need to earn, on average, 7% per year for 30 years;
- Establish a minimum level of benefit to support the lifestyle for current beneficiaries. This level may be set at \$150 per month;
- For participants who are currently working, evaluate an alternative new individual account based plan;
- Additional government contributions beyond tax receipts, either in lump-sum or on an on-going basis, will need to be part of the solution, given the very limited resources currently available; and
- MISSA is also looking into distributing benefits pro-rated based on contributions collected during the previous year as a temporary solution while looking for more long-term viable solutions.

Given the negative effects of raising taxes, the Administration does not have the desire, at the moment, of using tax increases as part of the solution.

An opportunity that the Administration is looking forward to is the pension workshop in Majuro set for the last week of April 2016. This 5-day conference is being organized by the Pacific Financial Technical Assistance Centre, an agency of the International Monetary Fund and is aimed to discuss the social security and pension challenges facing the RMI, FSM and Palau, and explore optional solutions. Representatives from the social security systems and Ministry of Finance of FSM and Palau, including the Palau Civil Service Pension Fund will be joining the workshop.

During the latter part of the workshop, the Administration plans to seek again an audience with the Nitijela, with its investment consultant and actuary presenting the latest financial outlook of the Retirement Fund and providing a more in-depth perspective based on their actuarial study.

The results of the national elections in November 2015 and the current political climate in the country, promising though it may be, still bring uncertainties to the future of the Retirement Fund. In a recent dialogue with the newly elected Government, the Administration presented a number of restructuring options which will sustain MISSA into the future. However, with increased political instability and socio-economic challenges facing the nation, MISSA may have to wait further until the urgency of the matter gets the full attention of the country's legislative body (Nitijela).

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

It is important to note that prior reforms under Nitijela Bill no. 43 introduced on March 18, 2013 were unsuccessful and that bill has since been eliminated. Without the immediate intervention of the country's legislative body, the Administration is helpless and the Marshall Islands Retirement Fund will be moving faster in the direction of imminent insolvency. Further inaction by the Government may lead to a point in time when there will be no other option available except to liquidate whatever assets are left.

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
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)**

Statements of Fiduciary Net Position
September 30, 2015 and 2014

	2015	2014
<u>ASSETS</u>		
Cash	\$ 772,855	\$ 986,958
Receivables, net:		
Contributions	1,784,736	1,825,889
Other	678,480	570,819
Total receivables, net	2,463,216	2,396,708
Investments:		
Cash management	53,257	15,626
Stocks	18,530,271	18,518,418
Mutual funds	47,805,484	52,554,234
Total investments	66,389,012	71,088,278
Capital assets, net	72,652	86,151
Total assets	69,697,735	74,558,095
<u>LIABILITIES</u>		
Accounts payable	82,144	55,412
Other liabilities and accruals	136,151	103,110
Due to affiliate	2,647,044	2,032,916
Total liabilities	2,865,339	2,191,438
Contingencies		
<u>NET POSITION</u>		
Held in trust for retirement, disability and survivors' benefits	\$ 66,832,396	\$ 72,366,657

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Position
Years Ended September 30, 2015 and 2014

	2015	2014
Additions:		
Contributions:		
Private employees	\$ 9,340,446	\$ 8,195,219
Government employees	4,307,410	4,326,039
Penalties and interest	1,148,204	180,351
Total contributions	14,796,060	12,701,609
Less allowance for doubtful accounts	(737,626)	-
Net contributions income	14,058,434	12,701,609
Investment income:		
Net change in the fair value of investments	(1,191,062)	4,354,809
Dividends	1,598,282	544,161
Interest	4,281	5,073
Total investment income	411,501	4,904,043
Less investment expense:		
Investment management and custodial fees	146,590	116,857
Net investment income	264,911	4,787,186
Other additions	365,149	1,241,613
Total additions	14,688,494	18,730,408
Deductions:		
Benefit payments:		
Retirement	12,006,633	11,373,370
Survivors	6,271,549	6,083,229
Disability	812,813	791,656
Lump sum	170,641	199,288
Total benefit payments	19,261,636	18,447,543
Administrative	961,119	904,390
Total deductions	20,222,755	19,351,933
Change in net position	(5,534,261)	(621,525)
Net position at beginning of year	72,366,657	72,988,182
Net position at end of year	<u>\$ 66,832,396</u>	<u>\$ 72,366,657</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2015 and 2014

(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.

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) 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 basic 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, the net position of MISSA is to be held in trust for retirement, disability and survivors' benefits.

A. Basis of Accounting

MISSA is accounted for as a Fiduciary Fund Type - Private Purpose Trust Fund and 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 the liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

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

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

C. Cash

For the purposes of the statements of fiduciary net position, cash includes cash on hand and cash in checking and savings accounts.

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.

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:

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

G. Deferred Outflows of Resources

In addition to assets, the statements of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MISSA has no items that qualify for reporting in this category.

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

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

H. 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. As of September 30, 2015 and 2014, the accumulated annual leave liability amounted to \$22,537 and \$33,283, respectively, and is included in the statements of fiduciary net position 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, 2015 and 2014 is \$16,023 and \$19,244, respectively.

I. Deferred Inflows of Resources

In addition to liabilities, the statements of fiduciary net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MISSA has no items that qualify for reporting in this category.

J. Contributions

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.

K. Benefit Obligations

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.

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

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

K. Benefit Obligations, Continued

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.

L. New Accounting Standards

During the year ended September 30, 2015, MISSA implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did not have a material effect on the accompanying financial statements.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of MISSA.

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

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

L. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

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

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

L. New Accounting Standards, Continued

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

M. 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 position 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, for the years ended September 30, 2015 and 2014, received an allocation of \$152,967 and \$40,000, respectively, from PSTFA. Total benefits and administrative expenditures for the years ended September 30, 2015 and 2014 amounted to \$78,253 and \$129,449, 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. As of September 30, 2015, the amount of \$98,593 is available for future benefit payments under the Prior Service Benefits Program.

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

Notes to Financial Statements
September 30, 2015 and 2014

(4) Deposits and Investments

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) 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.
- (ii) 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 issued by 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 Retirement Fund or ten percent of the outstanding value of the issue at the time of purchase.
- (iii) 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 Retirement 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 Retirement Fund shall be invested in any one industry group.
- (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 Retirement Fund.

A. Deposits:

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.

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

Notes to Financial Statements
September 30, 2015 and 2014

(4) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2015 and 2014, the carrying amount of MISSA's cash was \$772,855 and \$986,958, respectively, and the corresponding bank balances were \$950,680 and \$1,343,043, respectively. As of September 30, 2015 and 2014, bank deposits in the amount of \$363,357 and \$297,803, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$587,323 and \$1,045,240, respectively, are maintained in a financial institution not subject to depository 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:

As of September 30, 2015 and 2014, investments at fair value are as follows:

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 47,805,484	\$ 52,554,234
Stock	5,072,693	6,288,991
Cash management funds	<u>53,257</u>	<u>15,626</u>
	<u>\$ 52,931,434</u>	<u>\$ 58,858,851</u>

Additionally, MISSA owns 65,609 shares of common stock of Marshall Islands Holdings, Inc. (MIHI), which engages in all aspects of holding company activities in the RMI and which is the sole shareholder of Bank of Marshall Islands (BOMI).

MISSA also owns 3,000 shares of common stock of Marshall Islands Service Corporation (MISC), which is majority-owned by MIHI.

The investment in MIHI is accounted for on the equity method since the investment constitutes 37% and 35% ownership share as of September 30, 2015 and 2014, respectively. At September 30, 2015 and 2014, MISSA's investment in MIHI amounted to \$13,427,578 and \$12,199,427, respectively. The investment in MISC is accounted for at cost since the fair market value is not readily available. At September 30, 2015 and 2014, MISSA's investment in MISC amounted to \$30,000.

As of September 30, 2015 and 2014, MISSA maintained bank deposits with BOMI totaling \$587,323 and \$1,045,240, respectively. During the years ended September 30, 2015 and 2014, MISSA received cash dividend payments from MIHI of \$458,402 and \$359,429, respectively.

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

Notes to Financial Statements
September 30, 2015 and 2014

(4) Deposits and Investments, Continued

B. Investments, Continued:

During the years ended September 30, 2015 and 2014, the total net increase in fair value of investments included \$1,688,053 and \$1,599,010, respectively, of equity in the net earnings of MIHI.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At September 30, 2015 and 2014, 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, 2015 and 2014.

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, 2015 and 2014, 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, 2015 and 2014, including applicable allowances for doubtful accounts, are as follows:

	<u>2015</u>	<u>2014</u>
Court judgments	\$ 5,479,237	\$ 5,417,645
Contributions	3,372,846	2,513,250
Notes	883,472	988,758
Other	<u>77,374</u>	<u>72,525</u>
	9,812,929	8,992,178
Less allowance for doubtful accounts	<u>(7,349,713)</u>	<u>(6,595,470)</u>
	<u>\$ 2,463,216</u>	<u>\$ 2,396,708</u>

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

Notes to Financial Statements
September 30, 2015 and 2014

(5) Receivables, Continued

Court judgments receivable represents 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 comprised of unpaid contributions together with penalties, interest, and attorney fees and are subject to interest of 9% per annum. Notes receivable represents 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) Related Party Transactions

As of September 30, 2015 and 2014, MISSA recorded amounts payable to the Marshall Islands Health Fund of \$2,647,044 and \$2,032,916, respectively, which represented unremitted basic health fund employee and employer contributions collected by MISSA at the respective year ends. Such is included in the statements of fiduciary net position as due to affiliate.

(7) Capital Assets

Capital asset activity for the years ended September 30, 2015 and 2014, is as follows:

	October 1, 2014	Additions	Retirements	September 30, 2015
Buildings and improvements	\$ 511,597	\$ -	\$ -	\$ 511,597
Computer equipment	110,507	1,330	(3,700)	108,137
Motor vehicles	108,350	-	(19,650)	88,700
Office equipment	82,370	16,798	(7,146)	92,022
Furniture	<u>59,167</u>	<u>300</u>	<u>-</u>	<u>59,467</u>
	871,991	18,428	(30,496)	859,923
Less accumulated depreciation and amortization	<u>(785,840)</u>	<u>(32,138)</u>	<u>30,707</u>	<u>(787,271)</u>
	<u>\$ 86,151</u>	<u>\$ (13,710)</u>	<u>\$ 211</u>	<u>\$ 72,652</u>
	October 1, 2013	Additions	Retirements	September 30, 2014
Buildings and improvements	\$ 511,597	\$ -	\$ -	\$ 511,597
Computer equipment	99,414	19,596	(8,503)	110,507
Motor vehicles	86,050	22,300	-	108,350
Office equipment	75,139	9,604	(2,373)	82,370
Furniture	<u>57,308</u>	<u>1,859</u>	<u>-</u>	<u>59,167</u>
	829,508	53,359	(10,876)	871,991
Less accumulated depreciation and amortization	<u>(774,015)</u>	<u>(22,701)</u>	<u>10,876</u>	<u>(785,840)</u>
	<u>\$ 55,493</u>	<u>\$ 30,658</u>	<u>\$ -</u>	<u>\$ 86,151</u>

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

Notes to Financial Statements
September 30, 2015 and 2014

(8) Contingencies

In June 2016, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2014. The valuation reported actuarial accrued liabilities and market value of assets for the Retirement Fund of \$442,510,000 and \$72,367,000, respectively, as of October 1, 2014. The funded ratio of the Retirement Fund as of October 1, 2014 is 16%. As of September 30, 2015, MISSA recorded total fund equity of \$66,733,803 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.

MISSA is of the opinion that there are outstanding contributions due to the Retirement Fund; however, a reasonable estimate of this amount cannot be made due primarily to noncompliance by employers.

(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.

(10) Subsequent Event

Resolution No. 2015-03 passed on September 24, 2015 by MISSA's Board of Directors authorized withdrawal of \$6.5 million from MISSA's investments during fiscal year 2016 for benefit payments. Management has since made five separate withdrawals totaling \$4.8 million.

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

Combining Statement of Fiduciary Net Position
September 30, 2015

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total Before Elimination</u>	<u>Elimination</u>	<u>Total</u>
<u>ASSETS</u>					
Cash	\$ 660,294	\$ 112,561	\$ 772,855	\$ -	\$ 772,855
Receivables, net:					
Contributions	1,784,736	-	1,784,736	-	1,784,736
Other	689,318	600	689,918	(11,438)	678,480
Total receivables, net	<u>2,474,054</u>	<u>600</u>	<u>2,474,654</u>	<u>(11,438)</u>	<u>2,463,216</u>
Investments:					
Cash management	53,257	-	53,257	-	53,257
Stocks	18,530,271	-	18,530,271	-	18,530,271
Mutual funds	47,805,484	-	47,805,484	-	47,805,484
Total investments	<u>66,389,012</u>	<u>-</u>	<u>66,389,012</u>	<u>-</u>	<u>66,389,012</u>
Capital assets, net	<u>72,652</u>	<u>-</u>	<u>72,652</u>	<u>-</u>	<u>72,652</u>
Total assets	<u>69,596,012</u>	<u>113,161</u>	<u>69,709,173</u>	<u>(11,438)</u>	<u>69,697,735</u>
<u>LIABILITIES</u>					
Accounts payable	82,144	-	82,144	-	82,144
Other liabilities and accruals	133,021	14,568	147,589	(11,438)	136,151
Due to affiliate	2,647,044	-	2,647,044	-	2,647,044
Total liabilities	<u>2,862,209</u>	<u>14,568</u>	<u>2,876,777</u>	<u>(11,438)</u>	<u>2,865,339</u>
<u>NET POSITION</u>					
Held in trust for retirement, disability and survivors' benefits	<u>\$ 66,733,803</u>	<u>\$ 98,593</u>	<u>\$ 66,832,396</u>	<u>\$ -</u>	<u>\$ 66,832,396</u>

See Accompanying Independent Auditors' Report.

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

Combining Statement of Changes in Fiduciary Net Position
Year Ended September 30, 2015

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total Before Elimination</u>	<u>Elimination</u>	<u>Total</u>
Additions:					
Contributions:					
Private employees	\$ 9,340,446	\$ -	\$ 9,340,446	\$ -	\$ 9,340,446
Government employees	4,307,410	-	4,307,410	-	4,307,410
Penalties and interest	<u>1,148,204</u>	-	<u>1,148,204</u>	-	<u>1,148,204</u>
Total contributions	14,796,060	-	14,796,060	-	14,796,060
Less allowance for doubtful accounts	<u>(737,626)</u>	-	<u>(737,626)</u>	-	<u>(737,626)</u>
Net contributions income	<u>14,058,434</u>	-	<u>14,058,434</u>	-	<u>14,058,434</u>
Investment income:					
Net change in the fair value of investments	(1,191,062)	-	(1,191,062)	-	(1,191,062)
Dividends	1,598,282	-	1,598,282	-	1,598,282
Interest	<u>4,281</u>	-	<u>4,281</u>	-	<u>4,281</u>
Total investment income	411,501	-	411,501	-	411,501
Less investment expense:					
Investment management and custodial fees	<u>146,590</u>	-	<u>146,590</u>	-	<u>146,590</u>
Net investment income	<u>264,911</u>	-	<u>264,911</u>	-	<u>264,911</u>
Other additions	<u>223,620</u>	<u>152,967</u>	<u>376,587</u>	<u>(11,438)</u>	<u>365,149</u>
Total additions	<u>14,546,965</u>	<u>152,967</u>	<u>14,699,932</u>	<u>(11,438)</u>	<u>14,688,494</u>
Deductions:					
Benefit payments:					
Retirement	11,979,388	27,245	12,006,633	-	12,006,633
Survivors	6,232,015	39,534	6,271,549	-	6,271,549
Disability	812,813	-	812,813	-	812,813
Lump sum	<u>170,641</u>	-	<u>170,641</u>	-	<u>170,641</u>
Total benefit payments	19,194,857	66,779	19,261,636	-	19,261,636
Administrative	<u>961,083</u>	<u>11,474</u>	<u>972,557</u>	<u>(11,438)</u>	<u>961,119</u>
Total deductions	<u>20,155,940</u>	<u>78,253</u>	<u>20,234,193</u>	<u>(11,438)</u>	<u>20,222,755</u>
Change in net position	(5,608,975)	74,714	(5,534,261)	-	(5,534,261)
Net position at beginning of year	<u>72,342,778</u>	<u>23,879</u>	<u>72,366,657</u>	-	<u>72,366,657</u>
Net position at end of year	<u>\$ 66,733,803</u>	<u>\$ 98,593</u>	<u>\$ 66,832,396</u>	<u>\$ -</u>	<u>\$ 66,832,396</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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Marshall Islands Social Security Administration (MISSA), which comprise the statement of fiduciary net position as of September 30, 2015, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MISSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MISSA's internal control. Accordingly, we do not express an opinion on the effectiveness of MISSA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

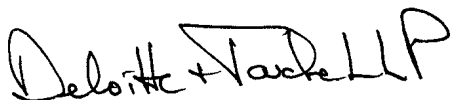
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 30, 2016

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

Unresolved Prior Year Findings
Year Ended September 30, 2015

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