

**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, 2011 AND 2010

MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION

Years Ended September 30, 2011 and 2010
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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, 2011 and 2010, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of MISSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

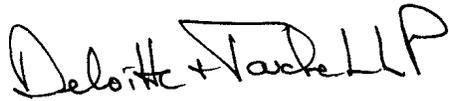
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of MISSA as of September 30, 2011 and 2010, and the changes in financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2012, on our consideration of MISSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary 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 the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of MISSA taken as a whole. The accompanying Combining Schedule of Net Assets (page 20) and Combining Schedule of Changes in Net Assets (page 21) as of and for the year ended September 30, 2011 are presented for purposes of additional analysis and are not a required part of the basic financial statements of MISSA. These schedules are the responsibility of MISSA's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements as of September 30, 2011 and for the year then ended and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

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

May 28, 2012

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

The following Management's Discussion and Analysis (MD&A) of the Marshall Islands Social Security Administration's (MISSA) financial performance provides an overview to the financial statements of MISSA for the fiscal years ended September 30, 2011 and 2010. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, we encourage the readers to consider it in conjunction with the audited financial statements, which follow this section.

REQUIRED FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF MISSA

The Statements of Net Assets on page 8 and the Statements of Changes in Net Assets on page 9 provide an indication of MISSA's financial condition. 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 2011 has been a more challenging year for MISSA with collections flattening, benefit payments continuing to increase and \$2 million being liquidated from MISSA's Time Certificate of Deposit at Bank of Marshall Islands (BOMI) plus \$1 million drawdown from Fidelity investment. The Administration had expected and prepared for this cash shortage in early 2006. The recent withdrawal of \$1 million from its foreign investment was the first of its kind since its inception in November 2002 and its liquidation of \$2 million is its 2nd in a row with \$1 million liquidation from previous fiscal year. Investments did not perform well this fiscal period with Investments incurring net losses of \$98,508 which is a decrease of 102% when compared to the Net Investment Income of \$5,490,636 in the previous fiscal year.

Along with the conduct of a comprehensive analysis of the present social security system, recent actuarial valuation report dated March 2012 indicated a growing Unfunded Actuarial Accrued Liability (UAAL) of \$222 million or 77% as of October 1, 2011 with \$163 million UAAL as of October 1, 2008. The Administration's UAAL as of October 1, 2011 was \$287 million while the market value of assets amounted to only \$65 million. In addition, there are warning signs showing future stresses to the System. Due to market decreases in 2008 and 2011, the funded status of the system has hit a critical juncture. Adding to the stress is the fact that the number of workers and taxable earnings continues to decrease.

As of September 30, 2011, MISSA's total net assets held in reserve for future benefits amounted to \$64,985,530. MISSA has no debt and did not have material activity in its capital assets. Please refer to the notes to the financial statements for additional information concerning these matters.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

A summary of MISSA's Statements of Net Assets as of September 30, 2011, 2010 and 2009 is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>			
Cash	\$ 1,265,266	\$ 763,320	\$ 836,178
Time certificates of deposit	2,300,000	4,065,200	4,775,752
Receivables, net:			
Contributions	2,519,145	2,695,054	2,114,800
Other	342,414	1,069,846	1,531,557
Due from affiliates, net	-	10,042	-
Investments:			
Cash management	232,877	60,098	55,279
Stocks	17,078,705	17,871,165	16,764,053
Mutual funds	42,847,356	43,791,256	39,982,483
Fixed assets, net	<u>31,227</u>	<u>54,858</u>	<u>88,151</u>
Total assets	<u>66,616,990</u>	<u>70,380,839</u>	<u>66,148,253</u>
<u>LIABILITIES</u>			
Accounts payable	82,016	41,456	72,943
Other liabilities and accruals	147,465	176,154	165,282
Due to affiliates	<u>1,401,979</u>	<u>1,619,241</u>	<u>1,027,268</u>
Total liabilities	<u>1,631,460</u>	<u>1,836,851</u>	<u>1,265,493</u>
<u>NET ASSETS</u>			
Held in trust for future benefits	\$ <u>64,985,530</u>	\$ <u>68,543,988</u>	\$ <u>64,882,760</u>

A summary of MISSA's Statements of Changes in Net Assets for the years ended September 30, 2011, 2010 and 2009 is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Additions:			
Contributions	\$ 12,521,129	\$ 13,118,836	\$ 12,604,191
Net investment income (losses)	(98,508)	5,490,636	3,347,438
Other	<u>339,090</u>	<u>488,192</u>	<u>362,598</u>
Total additions	<u>12,761,711</u>	<u>19,097,664</u>	<u>16,314,227</u>
Deductions:			
Benefit payments	15,482,884	14,551,142	13,645,174
Administrative	<u>837,285</u>	<u>885,294</u>	<u>972,954</u>
Total deductions	<u>16,320,169</u>	<u>15,436,436</u>	<u>14,618,128</u>
Change in net assets	\$ <u>(3,558,458)</u>	\$ <u>3,661,228</u>	\$ <u>1,696,099</u>

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in MISSA's report on the audit of its financial statements dated November 22, 2010. Such Management Discussion and Analysis explains the major factors impacting the fiscal year 2010 financial statements and can be obtained from MISSA's Administrator via the contact information on page 7.

Additions:

The Administration had expected contributions to remain flat this fiscal year due to the effect of financial crisis both within the country and around the world. Contributions for the year totaled \$12,521,129 or 3.89% lower than the budget. The RMI Government, through the Ministry of Finance, has consistently paid its bi-weekly remittances on time and its contributions increased by 1.69% this fiscal year from \$3,874,061 in fiscal year 2010 to \$3,939,534 in fiscal year 2011. Private contributions increased by 8.27% from \$8,816,591 in fiscal year 2010 to \$9,545,474 in fiscal year 2011. Penalties and interest increased from \$428,184 in fiscal year 2010 to \$3,412,009 in fiscal year 2011, or an increase of 697% which was due to penalties and interest from judgments and agreements entered into in fiscal year 2011. There was also a provision for bad debts expense for fiscal year 2011 amounting to \$4,375,888 which was shown as a direct deduction of revenues this year. Other income has decreased by 30.54% from \$488,192 in fiscal year 2010 to \$339,090 in fiscal year 2011.

The following table presents MISSA's investment allocations as of September 30, 2011 with comparative figures in 2010.

Investment Type	As of September 30, 2011				As of September 30, 2010			
	Weight	Target	Market Value (\$'000)	Target Value (\$'000)	Weight	Target	Market Value (\$'000)	Target Value (\$'000)
Small Cap	4.7%	4.8%	\$ 2,399	\$ 2,432	5.1%	4.8%	\$ 2,716	\$ 2,532
Small Cap Value	6.6%	7.2%	\$ 3,360	\$ 3,648	7.7%	7.2%	\$ 4,086	\$ 3,798
Large Cap	4.8%	4.8%	\$ 2,437	\$ 2,432	5.2%	4.8%	\$ 2,724	\$ 2,532
Large Cap Value	7.0%	7.2%	\$ 3,535	\$ 3,648	7.7%	7.2%	\$ 4,079	\$ 3,798
Int'l Small Cap	4.4%	4.5%	\$ 2,239	\$ 2,280	5.1%	4.5%	\$ 2,707	\$ 2,374
Int'l Small Cap Value	5.1%	5.4%	\$ 2,600	\$ 2,736	6.0%	5.4%	\$ 3,164	\$ 2,848
Int'l Large Cap	4.4%	4.5%	\$ 2,210	\$ 2,280	5.0%	4.5%	\$ 2,624	\$ 2,374
Int'l Large Cap Value	5.0%	5.4%	\$ 2,519	\$ 2,736	6.0%	5.4%	\$ 3,155	\$ 2,848
Emerging Markets	3.9%	4.2%	\$ 1,955	\$ 2,128	4.9%	4.2%	\$ 2,592	\$ 2,215
Domestic Real Estate	4.3%	4.5%	\$ 2,179	\$ 2,280	5.0%	4.5%	\$ 2,633	\$ 2,374
International Real Estate	4.2%	4.5%	\$ 2,135	\$ 2,280	5.1%	4.5%	\$ 2,690	\$ 2,374
Commodities	2.8%	3.0%	\$ 1,406	\$ 1,520	3.0%	3.0%	\$ 1,576	\$ 1,582
Bonds	42.4%	40.0%	\$ 21,463	\$ 20,268	34%	39.75%	\$ 17,942	\$ 20,967
Cash and Equivalents	0.4%	0.0%	\$ 233	\$ 0	0.2%	0.25%	\$ 60	\$ 132
TOTAL	100%	100%	\$ 50,670	\$ 50,670	100%	100%	\$ 52,748	\$ 52,748

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

For the year ended September 30, 2011, the fair market value of MISSA's investments in the U.S. and International markets decreased by \$2,336,729. A total of \$1,569,394 in dividends and interest payments were received and subsequently reinvested. Investment management fees have increased by 9.84% from \$126,783 in 2010 to \$139,265 in 2011.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

MISSA presently holds a 31% interest in BOMI. For the year ended September 30, 2011, MISSA's 65,285 shares at BOMI increased in value by \$808,092 representing equity earnings. Annual dividend payments of \$293,783 and \$293,782 were received from BOMI in April 2011 and 2010, respectively. As of September 30, 2011 and 2010, the shares at BOMI were valued at \$9,458,734 and \$8,944,425, respectively. Furthermore, MISSA holds 3,000 shares of stocks at \$10.00 par value from the Marshall Islands Service Corporation.

Deductions:

Deductions represent benefit payments and administrative expenses. For the year ended September 30, 2011, total deductions amounted to \$16,320,169, which is 5.72% higher than the \$15,436,436 paid in the previous year. In spite of the implementation of various restrictions and controls on eligibility, benefit payments for fiscal year 2011 increased steadily by 6.40% to a total of \$15,482,884 as compared to \$14,551,142 paid in fiscal year 2010. Administrative expenses were maintained within the budgetary limits. For the years ended September 30, 2011 and 2010, MISSA's administrative expenses totaled \$837,285 and \$885,294, respectively. These amounts represent 7% of total contributions generated during these respective years. As mandated by the Social Security Act of 1990, MISSA's administrative expenses have an allowable ceiling of as much as 20% of total revenues for any given year.

FUTURE ECONOMIC OUTLOOK

Fiscal Year 2011 ended with MISSA facing one of the most challenging years in the past decade. Carrying forward from the last fiscal year, the Administration faces an even more difficult FY 2012, when it expects an even more substantial cash flow crisis. Before the end of FY 2012, a total of \$3.4 million is projected to be withdrawn from MISSA's cash reserves. These cash shortfalls are evident in the Administration's latest actuarial report which gave the Administration's life expectancy of just a little more than 10 years if no reforms are enforced in the present social security system in the country.

The stagnant workforce and lethargic economic conditions offer no hope for any significant increases in tax collections despite a continued rise in benefit payments. Millions of dollars in uncollected taxes from a few delinquent employers, some of which are agencies of the Government and a Local Government, will provide only temporary relief to the growing multi-million dollar cash deficit. It is the hope of MISSA that the RMI Government in cooperation with the private sector earnestly work together to find a realistic economic model for the RMI which will ensure the growth of the private sector and improved livelihood for the people.

MISSA's subsequent years of digging into its trust funds to cover its increasing cash deficit is expected to continue unless prompt and drastic change in the current system is put into place. The establishment of the Social Security Reform Commission (SSRC) on September 13, 2010 is aimed to provide Cabinet with recommended amendments to Social Security Act of 1990, as amended, which will ensure the viability of the retirement fund in the immediate and long term. It is also an objective of the SSRC to look into the feasibility of developing a new Defined Contribution system in place of the current Defined Benefit system.

The predominantly new MISSA Board of Directors appointed in March of 2012, comprised mainly of younger workers, will provide the impetus needed to implement the efforts that have already been made in the years prior so that necessary sustainable change can be made to fix the worsening condition of the present retirement system. Amongst these changes are across the board reductions in benefits for all present and future beneficiaries, setting a maximum ceiling on benefits, removing customarily adoptive children from receiving benefits, etc. No matter how difficult the changes may be, we are comforted by the certainty that they will be for the best interest of all who are vested in the system and not just for the few that are benefiting now.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis
Years Ended September 30, 2011 and 2010

CONTACTING MISSA'S FINANCIAL MANAGEMENT

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Statements of Net Assets
September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash	\$ 1,265,266	\$ 763,320
Time certificates of deposit	<u>2,300,000</u>	<u>4,065,200</u>
Receivables, net:		
Contributions	2,519,145	2,695,054
Other	<u>342,414</u>	<u>1,079,888</u>
Total receivables, net	<u>2,861,559</u>	<u>3,774,942</u>
Investments:		
Cash management	232,877	60,098
Stocks	17,078,705	17,871,165
Mutual funds	<u>42,847,356</u>	<u>43,791,256</u>
Total investments	<u>60,158,938</u>	<u>61,722,519</u>
Fixed assets, net	<u>31,227</u>	<u>54,858</u>
Total assets	<u>66,616,990</u>	<u>70,380,839</u>

LIABILITIES

Accounts payable	82,016	41,456
Other liabilities and accruals	147,465	176,154
Due to Ministry of Health	<u>1,401,979</u>	<u>1,619,241</u>
Total liabilities	<u>1,631,460</u>	<u>1,836,851</u>

Contingency

NET ASSETS

Held in trust for retirement, disability and survivors' benefits	<u>\$ 64,985,530</u>	<u>\$ 68,543,988</u>
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See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Statements of Changes in Net Assets Years Ended September 30, 2011 and 2010

	2011	2010
Additions:		
Contributions:		
Private employees	\$ 9,545,474	\$ 8,816,591
Government employees	3,939,534	3,874,061
Penalties and interest	3,412,009	428,184
Total contributions	16,897,017	13,118,836
Less allowance for doubtful accounts	4,375,888	-
Net contributions	12,521,129	13,118,836
Investment income (loss):		
Net change in the fair value of investments	(1,528,637)	4,213,121
Dividends	1,399,396	1,125,341
Interest	169,998	278,957
Total investment income	40,757	5,617,419
Less investment expense:		
Investment management and custodial fees	139,265	126,783
Net investment income (loss)	(98,508)	5,490,636
Other	339,090	488,192
Total additions	12,761,711	19,097,664
Deductions:		
Benefit payments:		
Retirement	9,253,952	8,501,345
Survivors	5,175,356	4,965,228
Disability	924,049	982,804
Lump sum	129,527	101,765
Total benefit payments	15,482,884	14,551,142
Administrative	837,285	885,294
Total deductions	16,320,169	15,436,436
Change in net assets	(3,558,458)	3,661,228
Net assets at beginning of year	68,543,988	64,882,760
Net assets at end of year	\$ 64,985,530	\$ 68,543,988

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2011 and 2010

(1) Organization

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

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

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

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

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

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

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

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies

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

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

A. Basis of Accounting

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

B. Future Liabilities and Contributions

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

C. Cash and Time Certificates of Deposit

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

D. Investments

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

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

E. Receivables and the Allowance for Doubtful Accounts

Contributions receivable are due from employers located within the Republic of the Marshall Islands. These receivables are not collateralized and are non-interest bearing.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts. The allowance is established through a provision for bad debts charged to expense.

F. Fixed Assets

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

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

G. Compensated Absences

Annual vacation leave is earned by all permanent employees and accumulates at the rate of one working day per bi-weekly pay period. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At September 30, 2011 and 2010, a liability existed for accumulated annual leave calculated at the employee's September 30, 2011 and 2010 pay rate in the amount of \$30,225 and \$38,024, respectively, and is included in the statements of net assets within other liabilities and accruals. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2011 and 2010 is \$19,221 and \$19,137, respectively.

H. New Accounting Standards

During fiscal year 2011, MISSA implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

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

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

I. Estimates

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

(3) Prior Service Benefits Program

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

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

MISSA assumed administrative functions and received an allocation of \$128,099 and \$145,686 from PSTFA in 2011 and 2010, respectively. Total benefits and administrative expenditures for the years ended September 30, 2011 and 2010 amounted to \$110,782 and \$124,238, respectively. However, while MISSA accepts the liability for any amounts received, MISSA does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. At September 30, 2011, the amount of \$42,256 is available for future benefit payments under the Prior Service Benefits Program.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2011 and 2010

(4) Deposits and Investments

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

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

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

A. Deposits:

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

- Category 1 Deposits that are federally insured or collateralized with securities held by MISSA or its agent in MISSA's name;

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2011 and 2010

(4) Deposits and Investments, Continued

A. Deposits, Continued:

- 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, 2011 and 2010, the carrying amount of MISSA's cash and time certificates of deposit were \$3,565,266 and \$4,828,520, respectively, and the corresponding bank balances were \$4,095,756 and \$5,207,189, respectively. As of September 30, 2011 and 2010, bank deposits in the amount of \$289,786 and \$109,069, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. MISSA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments:

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

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

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2011 and 2010

(4) Deposits and Investments, Continued

B. Investments, Continued:

As of September 30, 2011 and 2010, investments at fair value are as follows:

	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 42,847,356	\$ 43,791,256
Domestic equities	5,379,986	6,272,151
Foreign equities	2,209,985	2,624,589
Cash management funds	<u>232,877</u>	<u>60,098</u>
	\$ <u>50,670,204</u>	\$ <u>52,748,094</u>

Additionally, MISSA owns 65,285 shares of the common stock of the Bank of Marshall Islands (BOMI), which engages in commercial banking services in the Republic of the Marshall Islands, and 3,000 shares of the common stock of Marshall Islands Service Corporation (MISC), which shareholders are comprised primarily of BOMI shareholders. The investment in BOMI is accounted for on the equity method since the investment constitutes a 31% ownership share. At September 30, 2011 and 2010, MISSA's investment in BOMI amounted to \$9,458,734 and \$8,944,425, respectively. The investment in MISC is accounted for at cost since the fair market value is not readily available. At September 30, 2011 and 2010, MISSA's investment in MISC amounted to \$30,000.

As of September 30, 2011 and 2010, MISSA maintained bank deposits and time certificates of deposit with BOMI totaling \$3,805,969 and \$5,098,119, respectively. During the years ended September 30, 2011 and 2010, MISSA received dividend payments from BOMI of \$293,783 and 293,782, respectively.

A summary of unaudited financial information as of and for the nine months ended September 30, 2011, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>69,968,128</u>
Liabilities	\$ <u>40,609,245</u>
Net earnings	\$ <u>1,872,932</u>

As of September 30, 2011 and 2010, net increase in fair value of investments included equity in net earnings of BOMI amounting to \$808,092 and \$828,234, respectively.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At September 30, 2011 and 2010, 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.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2011 and 2010

(4) Deposits and Investments, Continued

B. Investments, Continued:

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, 2011 and 2010.

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, 2011 and 2010, 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, 2011 and 2010, including applicable allowances for doubtful accounts, are as follows:

	<u>2011</u>	<u>2010</u>
Court judgments	\$ 7,806,901	\$ 4,470,356
Contributions	2,863,232	4,834,151
Notes	1,583,936	1,191,262
Interest	36,616	106,200
Other	<u>68,052</u>	<u>70,113</u>
	12,358,737	10,672,082
Less allowance for doubtful accounts	<u>(9,497,178)</u>	<u>(6,897,140)</u>
	\$ <u>2,861,559</u>	\$ <u>3,774,942</u>

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

(6) Due to Ministry of Health

As of September 30, 2011 and 2010, MISSA recorded amounts payable to Ministry of Health (MOH) of \$1,401,979 and \$1,619,241, respectively, which represented contributions collected by MISSA unremitted to MOH at the respective year ends.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements September 30, 2011 and 2010

(7) Capital Assets

Capital asset activity for the years ended September 30, 2011 and 2010, was as follows:

	October 1, <u>2010</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2011</u>
Buildings and improvements	\$ 505,167	\$ -	\$ -	\$ 505,167
Motor vehicles	104,720	-	(33,675)	71,045
Computer equipment	93,152	1,256	(510)	93,898
Furniture	57,008	-	-	57,008
Office equipment	<u>70,436</u>	<u>2,571</u>	<u>(2,014)</u>	<u>70,993</u>
	830,483	3,827	(36,199)	798,111
Less accumulated depreciation and amortization	<u>(775,625)</u>	<u>(24,443)</u>	<u>33,184</u>	<u>(766,884)</u>
	<u>\$ 54,858</u>	<u>\$ (20,616)</u>	<u>\$ (3,015)</u>	<u>\$ 31,227</u>
	October 1, <u>2009</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2010</u>
Buildings and improvements	\$ 505,167	\$ -	\$ -	\$ 505,167
Motor vehicles	104,720	-	-	104,720
Computer equipment	94,122	1,920	(2,890)	93,152
Furniture	56,504	504	-	57,008
Office equipment	<u>83,732</u>	<u>356</u>	<u>(13,652)</u>	<u>70,436</u>
	844,245	2,780	(16,542)	830,483
Less accumulated depreciation and amortization	<u>(756,094)</u>	<u>(36,073)</u>	<u>16,542</u>	<u>(775,625)</u>
	<u>\$ 88,151</u>	<u>\$ (33,293)</u>	<u>\$ -</u>	<u>\$ 54,858</u>

(8) Contingency

In March 2012, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2011. The valuation reported actuarial accrued liabilities for the Retirement Fund of \$287,327,000. As of September 30, 2011, MISSA recorded total fund equity of \$64,943,274 in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that MISSA may be unable to meet its future benefit obligations.

(9) Risk Management

MISSA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MISSA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. MISSA is also exposed to investment risk. This risk is limited by diversification of the portfolio, establishment and monitoring of investment policies and guidelines, and monitoring of investment performance. In addition, investment consultants monitor MISSA's activities and advise the Board of Directors.

(10) Subsequent Event

MISSA's time certificates of deposit were fully liquidated on October 18, 2011 and on January 18, 2012.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combining Schedule of Net Assets
September 30, 2011

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total Before Elimination</u>	<u>Elimination</u>	<u>Total</u>
<u>ASSETS</u>					
Cash	\$ 1,215,743	\$ 49,523	\$ 1,265,266	\$ -	\$ 1,265,266
Time certificates of deposit	<u>2,300,000</u>	<u>-</u>	<u>2,300,000</u>	<u>-</u>	<u>2,300,000</u>
Receivables, net:					
Contributions	2,519,145	-	2,519,145	-	2,519,145
Other	<u>346,783</u>	<u>-</u>	<u>346,783</u>	<u>(4,369)</u>	<u>342,414</u>
Total receivables, net	<u>2,865,928</u>	<u>-</u>	<u>2,865,928</u>	<u>(4,369)</u>	<u>2,861,559</u>
Investments:					
Cash management	232,877	-	232,877	-	232,877
Stocks	17,078,705	-	17,078,705	-	17,078,705
Mutual funds	<u>42,847,356</u>	<u>-</u>	<u>42,847,356</u>	<u>-</u>	<u>42,847,356</u>
Total investments	<u>60,158,938</u>	<u>-</u>	<u>60,158,938</u>	<u>-</u>	<u>60,158,938</u>
Fixed assets, net	<u>31,227</u>	<u>-</u>	<u>31,227</u>	<u>-</u>	<u>31,227</u>
Total assets	<u>66,571,836</u>	<u>49,523</u>	<u>66,621,359</u>	<u>(4,369)</u>	<u>66,616,990</u>
<u>LIABILITIES</u>					
Accounts payable	82,016	-	82,016	-	82,016
Other liabilities and accruals	144,567	7,267	151,834	(4,369)	147,465
Due to Ministry of Health	<u>1,401,979</u>	<u>-</u>	<u>1,401,979</u>	<u>-</u>	<u>1,401,979</u>
Total liabilities	<u>1,628,562</u>	<u>7,267</u>	<u>1,635,829</u>	<u>(4,369)</u>	<u>1,631,460</u>
<u>NET ASSETS</u>					
Held in trust for retirement, disability and survivors' benefits	<u>\$ 64,943,274</u>	<u>\$ 42,256</u>	<u>\$ 64,985,530</u>	<u>\$ -</u>	<u>\$ 64,985,530</u>

See Accompanying Independent Auditors' Report.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combining Schedule of Changes in Net Assets
Year Ended September 30, 2011

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total Before Elimination</u>	<u>Elimination</u>	<u>Total</u>
Additions:					
Contributions:					
Private employees	\$ 9,545,474	\$ -	\$ 9,545,474	\$ -	\$ 9,545,474
Government employees	3,939,534	-	3,939,534	-	3,939,534
Penalties and interest	3,412,009	-	3,412,009	-	3,412,009
Total contributions	<u>16,897,017</u>	<u>-</u>	<u>16,897,017</u>	<u>-</u>	<u>16,897,017</u>
Less allowance for doubtful accounts	4,375,888	-	4,375,888	-	4,375,888
Net contributions income	<u>12,521,129</u>	<u>-</u>	<u>12,521,129</u>	<u>-</u>	<u>12,521,129</u>
Investment income (loss):					
Net change in the fair value of investments	(1,528,637)	-	(1,528,637)	-	(1,528,637)
Dividends	1,399,396	-	1,399,396	-	1,399,396
Interest	169,998	-	169,998	-	169,998
Total investment income	<u>40,757</u>	<u>-</u>	<u>40,757</u>	<u>-</u>	<u>40,757</u>
Less investment expense:					
Investment management and custodial fees	139,265	-	139,265	-	139,265
Net investment loss	<u>(98,508)</u>	<u>-</u>	<u>(98,508)</u>	<u>-</u>	<u>(98,508)</u>
Other	227,731	128,099	355,830	(16,740)	339,090
Total additions	<u>12,650,352</u>	<u>128,099</u>	<u>12,778,451</u>	<u>(16,740)</u>	<u>12,761,711</u>
Deductions:					
Benefit payments:					
Retirement	9,210,609	43,343	9,253,952	-	9,253,952
Survivors	5,126,381	48,975	5,175,356	-	5,175,356
Disability	924,049	-	924,049	-	924,049
Lump sum	129,527	-	129,527	-	129,527
Total benefit payments	<u>15,390,566</u>	<u>92,318</u>	<u>15,482,884</u>	<u>-</u>	<u>15,482,884</u>
Administrative	835,561	18,464	854,025	(16,740)	837,285
Total deductions	<u>16,226,127</u>	<u>110,782</u>	<u>16,336,909</u>	<u>(16,740)</u>	<u>16,320,169</u>
Change in net assets	(3,575,775)	17,317	(3,558,458)	-	(3,558,458)
Net assets at beginning of year	68,519,049	24,939	68,543,988	-	68,543,988
Net assets at end of year	<u>\$ 64,943,274</u>	<u>\$ 42,256</u>	<u>\$ 64,985,530</u>	<u>\$ -</u>	<u>\$ 64,985,530</u>

See Accompanying Independent Auditors' Report.

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

Board of Directors
Marshall Islands Social Security Administration:

We have audited the financial statements of the Marshall Islands Social Security Administration (MISSA) as of and for the year ended September 30, 2011, and have issued our report thereon dated May 28, 2012. 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

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

A *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 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.

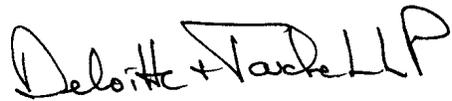
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

Compliance and Other Matters

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

We noted certain matters that we reported to management of MISSA in a separate letter dated May 28, 2012.

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

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

May 28, 2012

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Unresolved Prior Year Findings
Year Ended September 30, 2011

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