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, 2012 AND 2011

MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION

Years Ended September 30, 2012 and 2011
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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, 2012 and 2011, 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 previously present fairly, in all material respects, the financial status of MISSA as of September 30, 2012 and 2011, 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 9, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements 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, 2012 are presented for purposes of additional analysis and are 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 standards generally accepted in the United States of America. In our opinion, the Combining Schedule of Net Assets and Combining Schedule of Changes in Net Assets as of and for the year ended September 30, 2012 is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte + Touche LLP

May 9, 2013

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, 2012 and 2011. 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 2012 has been even more challenging year for MISSA with collections flattening, benefit payments continuing to increase and $2.3 million being liquidated from MISSA's Time Certificate of Deposit at Bank of Marshall Islands. Though there was no withdrawal made from offshore investments as occured in FY2011, a total of $3.3 million was drawn against the trust fund which was sourced from the liquidation of $2.3 million in certificates of deposit and a $1 million reduction in cash balances at the end of FY2012. Investments did perform well this fiscal year with net Investment Income of $8,252,479, which is an increase of 8500% when compared to the net Investment loss of $98,509 in the previous fiscal year.

Recent actuarial valuation report, dated March 2012, indicated a growing unfunded Actuarial Accrued Liability (AAL) of $218 million or 77% as of October 1, 2011 with $163 million unfunded AAL as of October 1, 2008. The Administration's AAL as of October 1, 2011 was $287 million while the market value of assets amounted to only $69 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, 2012, MISSA's total net assets held in reserve for future benefits amounted to $68,969,546. MISSA has no debt and did not have material activity in its capital assets. Please refer to notes to the financial statements for additional information concerning these matters.

A summary of MISSA's Statements of Net Assets as of September 30, 2012, 2011 and 2010 is presented below:

	2012	2011	2010
ASSETS			
Cash and cash equivalents	$ 310,475	$ 1,265,266	$ 763,320
Time certificates of deposit	-	2,300,000	4,065,200
Receivables, net:			
Contributions	2,063,491	2,519,145	2,695,054
Other	279,217	342,414	1,069,846
Due from affiliates	-	-	10,042
Investments:			
Cash Management	59,436	232,877	60,098
Stocks	15,836,554	17,078,705	17,871,165
Mutual funds	52,129,172	42,847,356	43,791,256
Fixed assets, net	42,149	31,227	54,858
Total assets	70,720,494	66,616,990	70,380,839
LIABILITIES			
Accounts payable	56,822	82,016	41,456
Other liabilities and accruals	146,745	147,465	176,154
Due to affiliates	1,547,381	1,401,979	1,619,241
Total liabilities	1,750,948	1,631,460	1,836,851
NET ASSETS			
Held in trust for future benefits	$ 68,969,546	$ 64,985,530	$ 68,543,988

A summary of MISSA's Statements of Changes in Net Assets for the years ended September 30, 2012, 2011 and 2010 is presented below:

	2012	2011	2010
Additions:			
Contributions	$ 12,447,381	$ 12,521,129	$ 13,118,836
Net investment income (losses)	8,252,479	(98,508)	5,490,636
Other	335,567	339,090	488,192
Total additions	21,035,427	12,761,711	19,097,664
Deductions:			
Benefit payments	16,252,193	15,482,884	14,551,142
Administrative	799,218	837,285	885,294
Total deductions	17,051,411	16,320,169	15,436,436
Change in net assets	$ 3,984,016	$ (3,558,458)	$ 3,661,228

Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in MISSA's report on the audit of its financial statements dated May 28, 2012. Such Management Discussion and Analysis explains the major factors impacting the fiscal year 2011 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 $12,447,381 or 3.21% higher 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 5.87% this fiscal year from $3,939,534 in fiscal year 2011 to $4,170,888 in fiscal year 2012. Private contributions decreased by 15.09% from $9,545,474 in fiscal year 2011 to $8,105,433 in fiscal year 2012. Penalties and interest decreased from $3,412,009 in fiscal year 2011 to $323,805 in fiscal year 2012, or a decrease of 90.51%, which was due to lower penalties and interests from judgment and agreements compared in fiscal year 2011. There was also a provision for bad debts expense for fiscal year 2012 amounting to $152,745 and was shown as a direct deduction to revenues this year. Other income slightly decreased by 0.01% from $339,090 in fiscal year 2011 to $335,567 in fiscal year 2012.

The following table presents MISSA's investment allocations as of September 30, 2012 with comparative figures in 2011.

	As of September 30, 2012				**As of September 30, 2011**			
Investment Type	**Weight**	**Target**	**Market Value ($'000)**	**Target Value ($'000)**	**Weight**	**Target**	**Market Value ($'000)**	**Target Value ($'000)**
Small Cap	4.6%	4.8%	$ 2,693	$ 2,781	4.7%	4.8%	$ 2,399	$ 2,432
Small Cap Value	6.9%	7.2%	$ 3,968	$ 4,171	6.6%	7.2%	$ 3,360	$ 3,648
Large Cap	4.6%	4.8%	$ 2,664	$ 2,781	4.8%	4.8%	$ 2,437	$ 2,432
Large Cap Value	7.0%	7.2%	$ 4,027	$ 4,171	7.0%	7.2%	$ 3,535	$ 3,648
Int'l Small Cap	4.4%	4.5%	$ 2,525	$ 2,607	4.4%	4.5%	$ 2,239	$ 2,280
Int'l Small Cap Value	5.2%	5.4%	$ 3,035	$ 3,128	5.1%	5.4%	$ 2,600	$ 2,736
Int'l Large Cap	4.4%	4.5%	$ 2,573	$ 2,607	4.4%	4.5%	$ 2,210	$ 2,280
Int'l Large Cap Value	4.9%	5.4%	$ 2,854	$ 3,128	5.0%	5.4%	$ 2,519	$ 2,736
Emerging Markets	4.0%	4.2%	$ 2,317	$ 2,433	3.9%	4.2%	$ 1,955	$ 2,128
Domestic Real Estate	3.9%	4.5%	$ 2,287	$ 2,607	4.3%	4.5%	$ 2,179	$ 2,280
International Real Estate	4.1%	4.5%	$ 2,392	$ 2,607	4.2%	4.5%	$ 2,135	$ 2,280
Commodities	2.8%	3.0%	$ 1,648	$ 1,738	2.8%	3.0%	$ 1,406	$ 1,520
Bonds	43.0%	40.0%	$24,889	$23,174	42.4%	40%	$ 21,463	$ 20,268
Cash and Equivalents	0.2%	0.0%	$ -	$ 59	0.4%	0.0%	$ 233	$ 0
TOTAL	**100%**	**100%**	**$ 57,932**	**$ 57,932**	**100%**	**100%**	**$ 50,670**	**$ 50,670**

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

For the year ended September 30, 2012, the fair market value of MISSA's investments in the U.S. and International markets increased by $6,349,191. A total of $1,048,719 in dividends and interest payments were received and subsequently reinvested. Investment management fees have increased by 1.15% from $139,265 in 2011 to $140,864 in 2012.

MISSA presently holds a 31% interest in BOMI. For the year ended September 30, 2012, MISSA's 65,285 shares at BOMI increased in value by $963,692 representing equity earnings. Annual dividend payments of $359,068 and $293,783 were received from BOMI in 2012 and 2011, respectively. As of September 30, 2012 and 2011, the shares at BOMI were valued at $10,063,358 and $9,458,734, 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, 2012, total deductions amounted to $17,051,411, which is 4.48% higher than the $16,320,169 paid in the previous year. In spite of the implementation of various restrictions and controls on eligibility, benefit payments for fiscal year 2012 increased steadily by 4.97% to a total of $16,252,193 as compared to $15,482,884 paid in fiscal year 2011. Administrative expenses were maintained within the budgetary limits. For the years ended September 30, 2012 and 2011, MISSA's administrative expenses totaled $799,218 and $837,285, respectively. These amounts represent 6% 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

The blatant crisis faced by the MISSA Retirement Fund is worsening every year as deficits have continued to increase uncontrollably forcing the Administration to liquidate trust fund assets as other sources of funding have not been made available. Fiscal Year 2012 closed with MISSA's deficit climbing to over $3 million. As previously projected, the Administration expects an even more substantial cash flow deficit in FY 2013 as it plans to draw down a total of $5 million from MISSA's invested assets. These cash shortfalls have been an increasing trend since FY 2009 and 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.

A study conducted by MISSA's Actuary and MISSA's Board and management provided the analytical basis to support the recommended changes to the Social Security Act of 1990, as amended. The study focused on changing the normal retirement age of 60 to 65, deferring the earnings test to age 67, increasing covered earnings (or the quarterly taxable wage ceiling) to $7,500, reducing benefits by 22%, increasing the tax rate from 7% to 9% for both employee and employer, increasing the required number of quarters for retirement, including criminal penalties for violation of the Social Security Act and eliminating "customarily adopted" beneficiaries and other loopholes. The study further looked at the impact of the recommended changes on MISSA's cash flow and provides a 10 year projection of deficits or surpluses for the fund. This study was presented to the RMI Cabinet in November 2012.

Although the changes are, for the most part, necessary to ensure the sustainability of the MISSA Fund beyond 2022 by eliminating the on-going cash deficit dilemma, it is also understood these changes, if implemented, do not guarantee a Social Security System that is free from economic risks given the economic outlook for the RMI in the immediate to long-term.

An independent study conducted by a local economist provided the following outlook on the RMI economy and its impact on the RMI Social Security System:

- Low contribution levels due to weak economic growth between 2004 and 2012 have not been high enough to offset the SS System cash flow deficit beginning 2008;
- Economic outlook remains bleak in the medium term due to the scheduled decline in Compact payments to the RMI until 2013 and the protracted recovery of the global economy;
- Real GDP to decline with unemployment rate to further rise between now and 2023.

In the coming fiscal year, MISSA is liaising with the RMI Government to acquire the technical assistance needed to assess and develop a more sustainable model that will consider a full or partial conversion of the current social security system to a more sustainable defined contributions system.

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, 2012 and 2011

	2012	2011
ASSETS		
Cash	$ 310,475	$ 1,265,266
Time certificates of deposit	-	2,300,000
Receivables, net:		
Contributions	2,063,491	2,519,145
Other	279,217	342,414
Total receivables, net	2,342,708	2,861,559
Investments:		
Cash management	59,436	232,877
Stocks	15,836,554	17,078,705
Mutual funds	52,129,172	42,847,356
Total investments	68,025,162	60,158,938
Fixed assets, net	42,149	31,227
Total assets	70,720,494	66,616,990
LIABILITIES		
Accounts payable	56,822	82,016
Other liabilities and accruals	146,745	147,465
Due to Ministry of Health	1,547,381	1,401,979
Total liabilities	1,750,948	1,631,460
Contingency		
NET ASSETS		
Held in trust for retirement, disability and survivors' benefits	$ 68,969,546	$ 64,985,530

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Statements of Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Additions:		
Contributions:		
Private employees	$ 8,105,433	$ 9,545,474
Government employees	4,170,888	3,939,534
Penalties and interest	323,805	3,412,009
Total contributions	12,600,126	16,897,017
Less allowance for doubtful accounts	152,745	4,375,888
Net contributions	12,447,381	12,521,129
Investment income (loss):		
Net change in the fair value of investments	7,312,882	(1,528,637)
Dividends	1,048,719	1,399,396
Interest	31,742	169,998
Total investment income	8,393,343	40,757
Less investment expense:		
Investment management and custodial fees	140,864	139,265
Net investment income (loss)	8,252,479	(98,508)
Other	335,567	339,090
Total additions	21,035,427	12,761,711
Deductions:		
Benefit payments:		
Retirement	9,813,768	9,253,952
Survivors	5,453,080	5,175,356
Disability	829,921	924,049
Lump sum	155,424	129,527
Total benefit payments	16,252,193	15,482,884
Administrative	799,218	837,285
Total deductions	17,051,411	16,320,169
Change in net assets	3,984,016	(3,558,458)
Net assets at beginning of year	64,985,530	68,543,988
Net assets at end of year	$ 68,969,546	$ 64,985,530

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to RepMar Public Law 1990-75 (the Social Security Act of 1990), as amended. The law repealed the Social Security Act of 1987 and established MISSA to administer the Marshall Islands Social Security Retirement Fund (the Retirement Fund). The Retirement Fund was established to provide a financially sound social security system with pension benefits and early retirement, whereby workers would be ensured a measure of security in their old age and during disability, and whereby surviving spouses and surviving children of deceased workers would be ensured support after the loss of the family's income. 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.

(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.

(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, 2012 and 2011, a liability existed for accumulated annual leave calculated at the employee's September 30, 2012 and 2011 pay rate in the amount of $24,042 and $30,225, 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, 2012 and 2011 is $18,669 and $19,221, respectively.

H. New Accounting Standards

During the year ended September 30, 2012, MISSA implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

- GASB 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 implementation of this pronouncement did not have a material effect on the accompanying financial statements.

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 has not yet determined the effect of implementation of this statement on the financial statements of MISSA. At a minimum, management anticipates the retitling of the Statement of Net Assets as the Statement of Net Position.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MISSA.

(2) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MISSA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements 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.

(3) Prior Service Benefits Program, Continued

MISSA assumed administrative functions and received an allocation of $112,650 and $128,099 from PSTFA in 2012 and 2011, respectively. Total benefits and administrative expenditures for the years ended September 30, 2012 and 2011 amounted to $106,559 and $110,782, 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, 2012, the amount of $48,347 is available for future benefit payments under the Prior Service Benefits Program.

(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) 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.

(4) Deposits and Investments, Continued

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.

As of September 30, 2012 and 2011, the carrying amount of MISSA's cash and time certificates of deposit were $310,475 and $3,565,266, respectively, and the corresponding bank balances were $825,794 and $4,095,756, respectively. As of September 30, 2012 and 2011, bank deposits in the amount of $177,685 and $289,786, 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:

As of September 30, 2012 and 2011, investments at fair value are as follows:

	2012	2011
Mutual funds	$ 52,129,172	$ 42,847,356
Domestic equities	5,743,196	5,379,986
Foreign equities	-	2,209,985
Cash management funds	59,436	232,877
	$ 57,931,804	$ 50,670,204

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, 2012 and 2011, MISSA's investment in BOMI amounted to $10,063,358 and $9,458,734, respectively. The investment in MISC is accounted for at cost since the fair market value is not readily available. At September 30, 2012 and 2011, MISSA's investment in MISC amounted to $30,000.

As of September 30, 2012 and 2011, MISSA maintained bank deposits and time certificates of deposit with BOMI totaling $648,109 and $3,805,969, respectively. During the years ended September 30, 2012 and 2011, MISSA received dividend payments from BOMI of $359,068 and 293,783, respectively.

(4) Deposits and Investments, Continued

B. Investments, Continued:

A summary of unaudited financial information as of and for the nine months ended September 30, 2012, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	$ 69,832,553
Liabilities	$ 39,949,130
Net earnings	$ 1,733,219

As of September 30, 2012 and 2011, the total net increase in fair value of investments included $963,692 and $808,092, respectively, of equity in the net earnings of BOMI.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At September 30, 2012 and 2011, 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, 2012 and 2011.

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, 2012 and 2011, 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, 2012 and 2011, including applicable allowances for doubtful accounts, are as follows:

	2012	2011
Court judgments	$ 7,397,237	$ 7,806,901
Contributions	2,594,140	2,863,232
Notes	1,462,789	1,583,936
Interest	-	36,616
Other	58,998	68,052
	11,513,164	12,358,737
Less allowance for doubtful accounts	(9,170,456)	(9,497,178)
	$ 2,342,708	$ 2,861,559

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, 2012 and 2011, MISSA recorded amounts payable to Ministry of Health (MOH) of $1,547,381 and $1,401,979, respectively, which represented contributions collected by MISSA unremitted to MOH at the respective year ends.

(7) Capital Assets

Capital asset activity for the years ended September 30, 2012 and 2011, was as follows:

	October 1, 2011	Additions	Retirements	September 30, 2012
Buildings and improvements	$ 505,167	$ -	$ -	$ 505,167
Motor vehicles	71,045	24,500	(16,000)	79,545
Computer equipment	93,898	750	-	94,648
Furniture	57,008	900	(600)	57,308
Office equipment	70,993	7,147	(3,575)	74,565
	798,111	33,297	(20,175)	811,233
Less accumulated depreciation and amortization	(766,884)	(22,375)	20,175	(769,084)
	$ 31,227	$ 10,922	$ -	$ 42,149

(7) Capital Assets, Continued

	October 1, 2010	Additions	Retirements	September 30, 2011
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	70,436	2,571	(2,014)	70,993
	830,483	3,827	(36,199)	798,111
Less accumulated depreciation and amortization	(775,625)	(24,443)	33,184	(766,884)
	$ 54,858	$ (20,616)	$ (3,015)	$ 31,227

(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, 2012, MISSA recorded total fund equity of $68,921,199 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 Events

On September 13, 2012, MISSA's Board of Directors passed Resolution No. 2012-07, which authorized withdrawal of $5.0 million from MISSA's investments. On November 21, 2012, management withdrew $1.5 million from MISSA's investments. On February 15, 2003, management withdrew an additional $1.5 million from MISSA’s investments.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combining Schedule of Net Assets
September 30, 2012

	Retirement Fund	Prior Service Fund	Total Before Elimination	Elimination	Total
ASSETS					
Cash	$ 254,303	$ 56,172	$ 310,475	$ -	$ 310,475
Receivables, net:					
Contributions	2,063,491	-	2,063,491	-	2,063,491
Other	283,757	-	283,757	(4,540)	279,217
Total receivables, net	2,347,248	-	2,347,248	(4,540)	2,342,708
Investments:					
Cash management	59,436	-	59,436	-	59,436
Stocks	15,836,554	-	15,836,554	-	15,836,554
Mutual funds	52,129,172	-	52,129,172	-	52,129,172
Total investments	68,025,162	-	68,025,162	-	68,025,162
Fixed assets, net	42,149	-	42,149	-	42,149
Total assets	70,668,862	56,172	70,725,034	(4,540)	70,720,494
LIABILITIES					
Accounts payable	56,822	-	56,822	-	56,822
Other liabilities and accruals	143,460	7,825	151,285	(4,540)	146,745
Due to Ministry of Health	1,547,381	-	1,547,381	-	1,547,381
Total liabilities	1,747,663	7,825	1,755,488	(4,540)	1,750,948
NET ASSETS					
Held in trust for retirement, disability and survivors' benefits	$ 68,921,199	$ 48,347	$ 68,969,546	$ -	$ 68,969,546

See Accompanying Independent Auditors' Report.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combining Schedule of Changes in Net Assets
Year Ended September 30, 2012

	Retirement Fund	Prior Service Fund	Total Before Elimination	Elimination	Total
Additions:					
Contributions:					
Private employees	$ 8,105,433	$ -	$ 8,105,433	$ -	$ 8,105,433
Government employees	4,170,888	-	4,170,888	-	4,170,888
Penalties and interest	323,805	-	323,805	-	323,805
Total contributions	12,600,126	-	12,600,126	-	12,600,126
Less allowance for doubtful accounts	152,745	-	152,745	-	152,745
Net contributions income	12,447,381	-	12,447,381	-	12,447,381
Investment income:					
Net change in the fair value of investments	7,312,882	-	7,312,882	-	7,312,882
Dividends	1,048,719	-	1,048,719	-	1,048,719
Interest	31,742	-	31,742	-	31,742
Total investment income	8,393,343	-	8,393,343	-	8,393,343
Less investment expense:					
Investment management and custodial fees	140,864	-	140,864	-	140,864
Net investment income	8,252,479	-	8,252,479	-	8,252,479
Other	236,340	112,650	348,990	(13,423)	335,567
Total additions	20,936,200	112,650	21,048,850	(13,423)	21,035,427
Deductions:					
Benefit payments:					
Retirement	9,771,610	42,158	9,813,768	-	9,813,768
Survivors	5,406,439	46,641	5,453,080	-	5,453,080
Disability	829,921	-	829,921	-	829,921
Lump sum	155,424	-	155,424	-	155,424
Total benefit payments	16,163,394	88,799	16,252,193	-	16,252,193
Administrative	794,881	17,760	812,641	(13,423)	799,218
Total deductions	16,958,275	106,559	17,064,834	(13,423)	17,051,411
Change in net assets	3,977,925	6,091	3,984,016	-	3,984,016
Net assets at beginning of year	64,943,274	42,256	64,985,530	-	64,985,530
Net assets at end of year	$ 68,921,199	$ 48,347	$ 68,969,546	$ -	$ 68,969,546

See Accompanying Independent Auditors' Report.

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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, 2012, and have issued our report thereon dated May 9, 2013. 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 9, 2013.

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.

Deloitte & Touche LLP

May 9, 2013

Unresolved Prior Year Findings
Year Ended September 30, 2012

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