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, 2016 AND 2015

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

Years Ended September 30, 2016 and 2015
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Social Security Administration:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of the Marshall Islands, which comprise the statements of fiduciary net position as of September 30, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MISSA as of September 30, 2016 and 2015, and the changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

Implementation of New Accounting Pronouncements

As discussed in Note 2 to the financial statements, MISSA adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application,* effective October 1, 2014.

Uncertainty Regarding Funded Ratio

As discussed in Note 8 to the financial statements, MISSA may be unable to meet its future benefit obligations.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017 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* in considering MISSA's internal control over financial reporting and compliance.

Deloitte + Touche LLP

June 23, 2017

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, 2016 and 2015. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, we encourage the readers to consider it in conjunction with the audited financial statements, which follow this section.

REQUIRED FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF MISSA

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

At the onset of FY 2016, the Administration's Fund Advisor has recommended an amendment to MISSA's Investment Policy Statement (IPS) to change its asset allocation from 60% global equity and 40% fixed income to 30% global equity and 70% fixed income in order to reduce the portfolio risk caused by MISSA's continuous drawdowns from the Fund. Subsequently, the MISSA Board approved the recommendation to safeguard the Fund from future market downturn, while expecting that the RMI Government will initiate drastic action to prevent the Fund from further depletion.

In April 2016, the Pacific Financial Technical Assistance Center (PFTAC), in cooperation with the International Monetary Fund (IMF) and the Bank of the Marshall Islands, sponsored a social security pension workshop in Majuro that triggered a series of government initiatives and resulted in the creation of the National Task Force on Social Security by the Cabinet. This team of eleven representatives from the Cabinet, Nitijela and private sector together with MISSA Management and consultants, paved the way to the conceptualization of the MISSA Reforms Bill, also known as Bill No. 47. Subsequently, it was passed in September 2016 by the Nitjela, although its final implementation was deferred to March 6, 2017. Consequently, the Nitijela's Committee on Appropriations approved a $2.3 million government subsidy for MISSA for FY 2017. This provided the Administration with the much needed fiscal stimulus to remain operational, with only $1 million being withdrawn from its investments by the end of 2016.

With renewed optimism, the MISSA Board decided to revert back MISSA's asset allocation to 60% global equity and 40% fixed income in August 2016. As of September 30, 2016, MISSA's investments outside the country totaled $49.27 million, which were lower by $3.66 million from last fiscal year due to drawdowns.

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

As of September 30, 2016, MISSA's total net position held in reserve for future benefits amounted to $65.61 million. MISSA has no debt and did not have material activity in its capital assets. Please refer to notes to financial statements for additional information concerning these matters.

A summary of MISSA's Statements of Fiduciary Net Position as of September 30, 2016, 2015 and 2014 is presented below:

	2016	2015	2014
ASSETS:			
Cash	$ 970,364	$ 772,855	$ 986,958
Receivables, net:			
Contributions	1,951,979	1,784,736	1,825,889
Other	793,487	678,480	570,819
Investments:			
Cash Management	276,230	53,257	15,626
Stocks	18,832,721	18,530,271	18,518,418
Mutual funds	44,715,832	47,805,484	52,554,234
Fixed assets, net	65,112	72,652	86,151
Total assets	67,605,725	69,697,735	74,558,095
LIABILITIES:			
Accounts payable	80,118	82,144	55,412
Other liabilities and accruals	76,685	136,151	103,110
Due to affiliates	1,839,854	2,647,044	2,032,916
Total liabilities	1,996,657	2,865,339	2,191,438
NET POSITION:			
Held in trust for future benefits	$ 65,609,068	$ 66,832,396	$ 72,366,657

A summary of MISSA's Statements of Changes in Fiduciary Net Position for the years ended September 30, 2016, 2015 and 2014 is presented below:

	2016	2015	2014
Additions:			
Contributions	$ 15,232,081	$ 14,058,434	$ 12,701,609
Net investment income	4,699,755	264,911	4,787,186
Other	251,037	365,149	1,241,613
Total additions	20,182,873	14,688,494	18,730,408
Deductions:			
Benefit payments	20,433,323	19,261,636	18,447,543
Administrative	972,878	961,119	904,390
Total deductions	21,406,201	20,222,755	19,351,933
Change in net position	$ (1,223,328)	$ (5,534,261)	$ (621,525)

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in MISSA's report on the audit of its financial statements dated June 30, 2016. Such Management Discussion and Analysis explains the major factors impacting the fiscal year 2015 financial statements and can be obtained from MISSA's Administrator via the contact information on page 9.

Additions:

Like in previous years, the RMI Government has consistently paid its bi-weekly remittances on time which comprised 30.5% of total contributions. Despite the lack of new job opportunities in the country, contributions have increased from $14,058,434 in fiscal year 2015 to $15,232,081 the following fiscal year due to MISSA's continuous aggressive collection efforts.

The following table presents MISSA's investment allocations as of September 30, 2016 with comparative figures in 2015.

	As of September 30, 2016				As of September 30, 2015			
Investment Type	**Weight**	**Target**	**Market Value ($'000)**	**Target Value ($'000)**	**Weight**	**Target**	**Market Value ($'000)**	**Target Value ($'000)**
Small Cap	4.22%	2.40%	$ 2,077	$ 1,182	4.64%	4.8%	$ 2,454	$ 2,451
Small Cap Value	5.54%	3.75%	2,727	1,847	7.38%	7.5%	3,904	3,970
Large Cap	5.33%	3.45%	2,626	1,700	4.92%	5.4%	2,606	2,858
Large Cap Value	5.78%	3.90%	2,846	1,921	7.61%	7.8%	4,030	4,129
Int'l Small Cap	3.54%	2.25%	1,744	1,109	4.53%	4.5%	2,395	2,382
Int'l Small Cap Value	4.32%	2.70%	2,130	1,330	5.37%	5.4%	2,843	2,858
Int'l Large Cap	3.68%	2.25%	1,813	1,109	4.17%	4.5%	2,205	2,382
Int'l Large Cap Value	3.61%	2.70%	1,780	1,330	4.91%	5.4%	2,598	2,858
Emerging Markets	3.20%	2.10%	1,574	1,035	3.61%	4.2%	1,909	2,223
Domestic Real Estate	3.35%	2.25%	1,649	1,109	4.66%	4.5%	2,467	2,382
International Real Estate	3.30%	2.25%	1,627	1,109	4.60%	4.5%	2,433	2,382
Commodities	0.00%	0.00%	0	0	1.39%	1.5%	738	794
Bonds	53.58%	69.90%	26,398	34,437	42.11%	39.90%	22,296	21,119
Cash and Equivalents	0.55%	0.10%	276	49	0.10%	0.10%	53	53
TOTAL	**100%**	**100%**	**$49,267**	**$49,267**	**100%**	**100%**	**$52,931**	**$52,931**

The above allocations are based on the latest investment policy statement adopted by the Board of Directors on August 18, 2016 wherein MISSA's total investment portfolio requires an allocation of 60% for equities and 40% for bonds. Eight months earlier, the Board, upon the recommendation of MISSA's Fund Manager, approved a temporary asset allocation of 30% global equity and 70% fixed income ratio in order to reduce portfolio rick caused by the continuous investment withdrawals by MISSA.

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

For the year ended September 30, 2016, the fair market value of MISSA's investments in the U.S. and international markets decreased by $3.66 million due to drawdowns that totaled $6.8 million. Since 2010, total investment withdrawals amounted to $22.3 million. A total of $1.56 million in dividends and interest payments were received and subsequently reinvested. Investment management fees have decreased by 10.5% from $146,590 in 2015 to $131,161 in 2016.

MISSA presently holds a 38% interest in MIHI, a local holding company incorporated on February 27, 2013. On October 31, 2013, MIHI acquired all of the outstanding common stock of Bank of the Marshall Islands (BOMI). Prior to MIHI's acquisition of BOMI, MISSA owned 65,417 shares of stocks of BOMI valued at $10,959,846. On May 11, 2015 and April 27, 2016, MISSA received additional shares in the aggregate amount of 192 from MIHI, increasing MISSA's shares to 65,609 as of September 30, 2016. As of September 30, 2016, MISSA's interest at MIHI increased in value by $1.10 million representing MIHI's fiscal year equity earnings. Annual dividend payments of $458,902 were received from MIHI in December 2015 for calendar year 2016 and in December 2014 for calendar year 2015, respectively. As of September 30, 2016 and 2015, the shares at MIHI were valued at $14.53 million and $13.43 million, respectively. Furthermore, MISSA holds 3,000 shares of stocks at $10.00 par value of Marshall Islands Service Corporation, which is majority-owned by MIHI.

Deductions:

Deductions represent benefit payments and administrative expenses. For the year ended September 30, 2016, total deductions amounted to $21.41 million, which is 5.85% higher than the $20.22 million paid in the previous year. As more workers reach retirement age, benefit payments for fiscal year 2016 increased steadily by 6.08% to a total of $20.43 million as compared to $19.26 million paid in fiscal year 2015. Administrative expenses were maintained within the budgetary limit. For the years ended September 30, 2016 and 2015, MISSA's administrative expenses totaled $972,878 and $961,119 respectively. These amounts represent 6.6% and 6.5% of total contributions generated during these respective years. As mandated by the Social Security Act of 1990, MISSA's administrative expenses have an allowable ceiling of as much as 20% of total revenues for any given year.

FUTURE ECONOMIC OUTLOOK

After years of constant appeal for RMI Government intervention and consultation with pension experts in the Pacific region, MISSA was able to solicit the support of the Pacific Financial Technical Assistance Center (PFTAC), in cooperation with the IMF's Expenditure Policy Division. From April 25 to 29, 2016, a team of retirement and pension fund specialists from PFTAC and IMF facilitated a conference that was attended by the social security systems of the Marshall Islands, Federated States of Micronesia (FSM) and the Republic of Palau, the Civil Service Pension Fund of Palau, MISSA's investment consultants and actuary, and representatives from the Cabinet and Nitijela.

The social security issues and pension challenges faced by FSM and Palau were similar to that of RMI but because of their Government's timely intermediation through legislation and financial assistance, their social security and pension systems were able to gradually restore their financial health. In the last several years, MISSA has constantly appealed to the RMI Government for budget appropriation and introduced a number of option plans to rehabilitate the system but did not succeed. The conference was the turning point and may have significantly influenced the outlook of the RMI legislators to take drastic action.

On May 20, 2016, the Cabinet established an eleven-member National Task Force to review the financial status of MISSA and come up with restructuring proposals and recommendations not later than August 2016. After a series of meetings with MISSA management and consultants, the task force submitted its final proposal, which ultimately became Bill 47. On September 29, 2016, the Nitijela passed Bill 47, to take effect on January 1, 2017. The highlights of the bill include a 1% increase in the Retirement Fund tax, the removal of the cap on taxable wages and a 5% benefit cut for those receiving $200 and above per month. However, on January 4, 2017, Bill 54 was introduced and subsequently passed by the Nitijela, postponing the effective date of the reforms bill to March 6, 2017.

Considering the urgency of the matter, the National Task Force met again a number of times and finally, came up with a modified reform plan that incorporated some provisions of Bill 43, a bill introduced a few years ago but was not acted upon by the Nitijela. The new bill, also known as Bill 75 was passed by the Nitijela on February 28, 2017 and subsequently certified by the Speaker on March 9, 2017. Based on Nitijela rules, the effective date of a new law is the date when the bill was certified by the Speaker before the Clerk of the Nitijela.

The highlights of Bill 75 follow:

- The maximum taxable wage cap currently at $5,000 per quarter or $20,000 per annum was increased to $10,000 per quarter or $40,000 per annum. This is expected to generate about $1.1 million additional revenues per year;

- The Retirement Fund rate was increased by 1% (from 7% to 8%) for both employee and employer contributions. This will increase contributions by $1.9 million per year. However, the current 3.5% contribution rate for Health Fund will remain the same;

- Benefits were reduced for those receiving $300 or more per month. The benefit reductions range from 5% to as much as 10% and will result to an annual savings of around $1 million. To lessen the impact of the benefit cuts, the reduction was phased in over three years where in two-thirds (2/3) are subsidized by the government in FY 2017 and one-third (1/3) the following fiscal year. By FY 2019, full reduction will be effected;

- There will be no more early and deferred retirement starting March 9, 2017;

- Current retirees will still be covered by earnings test until age 62. For new retirees starting March 9, 2017 and onward, the earnings test will be applied up to age 65;

- The old age retirement benefit was redefined. A person shall be eligible to receive normal retirement old age benefits as follows:

    At age 61 by March 6, 2017

    At age 62 by January 1, 2019

    At age 63 by January 1, 2021

    At age 64 by January 1, 2023

    At age 65 by January 1, 2025

- Provisions on customary adopted child will be more stringent to ensure the long term sustainability of the Fund; and

- "Earnings" was redefined for tax compliance purposes while certain compensations (i.e. stipend, sitting fees, per diem, etc.) were specifically identified as non-taxable.

MISSA has reiterated many times that the new law is only aimed at addressing the short and medium term cash flow of MISSA and does not guarantee a long-term solution to the Administration's financial viability. It is projected that, without further changes to the new system, MISSA will again need to withdraw from its investments at least $2 million before the end of FY 2017 due to the following shortfall:

Estimated revenues for FY 2017	$ 14,000,000
Estimated benefits for FY 2017 (before Bill 75)	(21,000,000)
Administrative expenses for FY 2017	(1,000,000)
Deficit	(8,000,000)
Effect of Bill 75 (6 months and 3 weeks)	2,250,000
Subsidy (2/3 of benefit reduction) not received	(666,667)
FY 2017 Appropriation	2,300,000
Supplemental budget for FY 2017	1,000,000
Investment withdrawal in Dec. 2016	1,000,000
Shortfall	$ (2,116,667)

MISSA has started to focus on new option plans to be presented to the National Task Force and Nitijela for further legislation. Upon request of MISSA management, Wilshire Associates (MISSA consultant and actuary) is now working on an "Experience Study" to compare the turnover, retirement and mortality assumptions used in the October 1, 2014 valuation with actual plan experience from 2011 through 2016 (six measurement dates). If the current assumptions used do not reflect recent experience, then it may be appropriate to adjust the assumptions to reflect more realistic values. Further, MISSA is also considering doing a comprehensive review of the following areas:

- Survivor benefits;
- Increase in minimum quarterly earnings for inclusion in the Social Security program to $750;
- Change in the requirements to be considered fully eligible:
    - Increase in the number of minimum number of quarters required from 12 to 20 quarters, and
    - Increase in the number of quarters required from 38 to 50 quarters.

MISSA is also considering the establishment of a maximum benefit for those who have received multiple times what they have put into the system. This was based on the actuary's report that about 90% of present beneficiaries have received more than what they have contributed. Another option being studied in the past is the conversion of the present defined benefit plan to a defined contribution scheme.

It is always the Administration's desire to reach for long-term solutions to prevent further depletion of the Retirement Fund and the best recourse is to correct certain flaws in the system, more particularly on benefits. A five year cash projection of MISSA revealed that the Administration will need at least $24 million from the Government if no further reforms to the new system is implemented. Without government appropriation in the coming years, it is imminent that the Retirement Fund will be fully depleted shortly due to continuous investment withdrawals.

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 ms.saaneaho@ntamar.net.

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

Statements of Fiduciary Net Position
September 30, 2016 and 2015

	2016	2015
ASSETS		
Cash	$ 970,364	$ 772,855
Receivables, net:		
Contributions	1,951,979	1,784,736
Other	793,487	678,480
Total receivables, net	2,745,466	2,463,216
Investments:		
Cash management	276,230	53,257
Stocks	18,832,721	18,530,271
Mutual funds	44,715,832	47,805,484
Total investments	63,824,783	66,389,012
Capital assets, net	65,112	72,652
Total assets	67,605,725	69,697,735
LIABILITIES		
Accounts payable	80,118	82,144
Other liabilities and accruals	76,685	136,151
Due to affiliate	1,839,854	2,647,044
Total liabilities	1,996,657	2,865,339
Contingencies		
NET POSITION		
Held in trust for retirement, disability and survivors' benefits	$ 65,609,068	$ 66,832,396

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Position
Years Ended September 30, 2016 and 2015

	2016	2015
Additions:		
Contributions:		
Private employees	$ 9,593,133	$ 9,340,446
Government employees	4,519,820	4,307,410
Penalties and interest	721,491	1,148,204
Total contributions	14,834,444	14,796,060
Add recovery from (allowance for) doubtful accounts	397,637	(737,626)
Net contributions income	15,232,081	14,058,434
Investment income:		
Net change in the fair value of investments	3,267,199	(1,191,062)
Dividends	1,560,416	1,598,282
Interest	3,301	4,281
Total investment income	4,830,916	411,501
Less investment expense:		
Investment management and custodial fees	131,161	146,590
Net investment income	4,699,755	264,911
Other additions	251,037	365,149
Total additions	20,182,873	14,688,494
Deductions:		
Benefit payments:		
Retirement	12,821,783	12,006,633
Survivors	6,574,036	6,271,549
Disability	831,539	812,813
Lump sum	205,965	170,641
Total benefit payments	20,433,323	19,261,636
Administrative	972,878	961,119
Total deductions	21,406,201	20,222,755
Change in net position	(1,223,328)	(5,534,261)
Net position at beginning of year	66,832,396	72,366,657
Net position at end of year	$ 65,609,068	$ 66,832,396

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.

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

(2) Summary of Significant Accounting Policies

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

Management of MISSA has determined that, per its enabling legislation, the net position of MISSA is to be held in trust for retirement, disability and survivors' benefits.

A. Basis of Accounting

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

B. Future Liabilities and Contributions

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

C. Cash

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

(2) Summary of Significant Accounting Policies, Continued

D. Investments

Investment and related investment earnings are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

MISSA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

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

E. Receivables and the Allowance for Doubtful Accounts

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

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

F. Fixed Assets

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

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

G. Deferred Outflows of Resources

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

(2) Summary of Significant Accounting Policies, Continued

H. Compensated Absences

Annual vacation leave is earned by all permanent employees and accumulates at the rate of one working day per bi-weekly pay period. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. As of September 30, 2016 and 2015, the accumulated annual leave liability amounted to $33,381 and $22,537, respectively, and is included in the statements of fiduciary net position within other liabilities and accruals.

No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2016 and 2015 is $18,536 and $16,023, respectively.

I. Deferred Inflows of Resources

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

J. Contributions

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

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

K. Benefit Obligations

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

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.

(2) Summary of Significant Accounting Policies, Continued

L. New Accounting Standards

During the year ended September 30, 2016, MISSA implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement resulted in additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additionally, the implementation resulted in the re-measurement of equity investments from cost-basis to NAV, as cost-basis measurement is no longer an allowable measureable method for equity investments. Such implementation did not have a material effect on the accompanying financial statements. Refer to Note 2B for more information regarding MISSA's investments.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

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

(2) Summary of Significant Accounting Policies, Continued

L. New Accounting Standards, Continued

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

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

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

M. Estimates

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

(3) Prior Service Benefits Program

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

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

MISSA assumed administrative functions and, for the years ended September 30, 2016 and 2015, received an allocation of $39,400 and $152,967, respectively, from PSTFA. Total benefits and administrative expenses for the years ended September 30, 2016 and 2015 amounted to $117,759 and $78,253, respectively. However, while MISSA accepts the liability for any amounts received, MISSA does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. As of September 30, 2016, the amount of $20,234 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) 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.

(4) Deposits and Investments, Continued

(ii) Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the RepMar or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is issued by an agency of the United States Government or is rated in one of the four highest categories by two nationally recognized rating agencies in the United States. No investment under this heading shall exceed five percent of the market value of the Retirement Fund or ten percent of the outstanding value of the issue at the time of purchase.

(iii) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the RepMar or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by MISSA's investment advisor at the time of purchase, that not more than fifteen percent (15%) percent of the market value of the Retirement Fund shall be invested in the stock of any one corporation, and that not more than twenty-five percent (25%) percent of the market value of the Retirement Fund shall be invested in any one industry group.

(iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the RepMar or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent (10%) of all investments of the Retirement Fund.

A. Deposits:

Custodial credit risk is the risk that in the event of a bank failure, MISSA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MISSA does not have a deposit policy for custodial credit risk.

As of September 30, 2016 and 2015, the carrying amount of MISSA's cash was $970,364 and $772,855, respectively, and the corresponding bank balances were $1,278,170 and $950,680, respectively. Of the bank balances, $930,183 and $363,357, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $347,987 and $587,323, respectively, are maintained in a financial institution not subject to depository insurance. As of September 30, 2016 and 2015, bank deposits in the amount of $250,000 were FDIC insured. 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, 2016 and 2015, investments in marketable securities are as follows:

	2016	2015
Mutual funds	$ 44,715,832	$ 47,805,484
Exchange Traded funds	4,274,618	5,072,693
Cash management funds	276,230	53,257
	$ 49,266,680	$ 52,931,434

(4) Deposits and Investments, Continued

B. Investments, Continued

MISSA has the following recurring fair value measurements as of September 30, 2016 and 2015:

	September 30, 2016	Fair Value Measurements Using: Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Exchange Traded funds	$ 4,274,618	$ 4,274,618	$ -	$ -
Mutual funds	44,715,832	44,715,832	-	-
	48,990,450	$ 48,990,450	$ -	$ -
Investments measured at amortized cost:				
Money market funds	276,230			
	$ 49,266,680			

	September 30, 2015	Fair Value Measurements Using: Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Exchange Traded funds	$ 5,072,693	$ 5,072,693	$ -	$ -
Mutual funds	47,805,484	47,805,484	-	-
	52,878,177	$ 52,878,177	$ -	$ -
Investments measured at amortized cost:				
Money market funds	53,257			
	$ 52,931,434			

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

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

The investment in MIHI is accounted for on the equity method since the investment constitutes 38% ownership share as of September 30, 2016 and 2015. At September 30, 2016 and 2015, MISSA's investment in MIHI amounted to $14,528,103 and $13,427,578, respectively. The investment in MISC is stated at NAV. At September 30, 2016 and 2015, MISSA's investment in MISC amounted to $30,000.

As of September 30, 2016 and 2015, MISSA maintained bank deposits with BOMI totaling $347,987 and $587,323, respectively. During the years ended September 30, 2016 and 2015, MISSA received cash dividend payments from MIHI of $458,902.

(4) Deposits and Investments, Continued

B. Investments, Continued

During the years ended September 30, 2016 and 2015, the total net increase in fair value of investments included $1,559,427 and $1,686,553, respectively, of equity in the net earnings of MIHI.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At September 30, 2016 and 2015, 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, 2016 and 2015.

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, 2016 and 2015, 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, 2016 and 2015, including applicable allowances for doubtful accounts, are as follows:

	2016	2015
Court judgments	$ 5,112,148	$ 5,479,237
Contributions	3,474,638	3,372,846
Notes	1,031,762	883,472
Other	78,994	77,374
	9,697,542	9,812,929
Less allowance for doubtful accounts	(6,952,076)	(7,349,713)
	$ 2,745,466	$ 2,463,216

(5) Receivables, Continued

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

(6) Related Party Transactions

As of September 30, 2016 and 2015, MISSA recorded amounts payable to the Marshall Islands Health Fund of $1,839,854 and $2,647,044, respectively, which represented unremitted basic health fund employee and employer contributions collected by MISSA at the respective year ends. Such is included in the statements of fiduciary net position as due to affiliate.

(7) Capital Assets

Capital asset activity for the years ended September 30, 2016 and 2015, is as follows:

	October 1, 2015	Additions	Retirements	September 30, 2016
Buildings and improvements	$ 511,597	$ -	$ -	$ 511,597
Computer equipment	108,137	1,245	-	109,382
Motor vehicles	88,700	24,500	(17,900)	95,300
Office equipment	92,022	2,179	-	94,201
Furniture	59,467	-	-	59,467
	859,923	27,924	(17,900)	869,947
Less accumulated depreciation and amortization	(787,271)	(35,464)	17,900	(804,835)
	$ 72,652	$ (7,540)	$ -	$ 65,112

	October 1, 2014	Additions	Retirements	September 30, 2015
Buildings and improvements	$ 511,597	$ -	$ -	$ 511,597
Computer equipment	110,507	1,330	(3,700)	108,137
Motor vehicles	108,350	-	(19,650)	88,700
Office equipment	82,370	16,798	(7,146)	92,022
Furniture	59,167	300	-	59,467
	871,991	18,428	(30,496)	859,923
Less accumulated depreciation and amortization	(785,840)	(32,138)	30,707	(787,271)
	$ 86,151	$ (13,710)	$ 211	$ 72,652

(8) Contingencies

In June 2016, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2014. The valuation reported actuarial accrued liabilities and market value of assets for the Retirement Fund of $442,510,000 and $72,367,000, respectively, as of October 1, 2014. The funded ratio of the Retirement Fund as of October 1, 2014 is 16%. As of September 30, 2016, MISSA recorded total fund equity of $65,588,834 in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that MISSA may be unable to meet its future benefit obligations.

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

(9) Risk Management

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

(10) Subsequent Events

On November 18, 2016, MISSA's Board of Directors authorized and approved the withdrawal of $2,000,000 from MISSA's investments to fund benefit payments.

On February 28, 2017, the Nitijela amended Public Law 2016-26 *Social Security (Amendment) Act 2016* through Public Law 2017-30 *Social Security (Amendment) Act 2017* with an effective date of March 6, 2017.

Subsequent to year end, MISSA received $2,300,000 from RepMar for the purpose of funding benefit payments.

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

Combining Statement of Fiduciary Net Position
September 30, 2016

	Retirement Fund	Prior Service Fund	Total Before Elimination	Elimination	Total
ASSETS					
Cash	$ 947,591	$ 22,773	$ 970,364	$ -	$ 970,364
Receivables, net:					
Contributions	1,951,979	-	1,951,979	-	1,951,979
Other	792,892	600	793,492	(5)	793,487
Total receivables, net	2,744,871	600	2,745,471	(5)	2,745,466
Investments:					
Cash management	276,230	-	276,230	-	276,230
Stocks	18,832,721	-	18,832,721	-	18,832,721
Mutual funds	44,715,832	-	44,715,832	-	44,715,832
Total investments	63,824,783	-	63,824,783	-	63,824,783
Capital assets, net	65,112	-	65,112	-	65,112
Total assets	67,582,357	23,373	67,605,730	(5)	67,605,725
LIABILITIES					
Accounts payable	80,118	-	80,118	-	80,118
Other liabilities and accruals	73,551	3,139	76,690	(5)	76,685
Due to affiliate	1,839,854	-	1,839,854	-	1,839,854
Total liabilities	1,993,523	3,139	1,996,662	(5)	1,996,657
NET POSITION					
Held in trust for retirement, disability and survivors' benefits	$ 65,588,834	$ 20,234	$ 65,609,068	$ -	$ 65,609,068

See Accompanying Independent Auditors' Report.

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

Combining Statement of Changes in Fiduciary Net Position
Year Ended September 30, 2016

	Retirement Fund	Prior Service Fund	Total Before Elimination	Elimination	Total
Additions:					
Contributions:					
Private employees	$ 9,593,133	$ -	$ 9,593,133	$ -	$ 9,593,133
Government employees	4,519,820	-	4,519,820	-	4,519,820
Penalties and interest	721,491	-	721,491	-	721,491
Total contributions	14,834,444	-	14,834,444	-	14,834,444
Add recovery from doubtful accounts	397,637	-	397,637	-	397,637
Net contributions income	15,232,081	-	15,232,081	-	15,232,081
Investment income:					
Net change in the fair value of investments	3,267,199	-	3,267,199	-	3,267,199
Dividends	1,560,416	-	1,560,416	-	1,560,416
Interest	3,301	-	3,301	-	3,301
Total investment income	4,830,916	-	4,830,916	-	4,830,916
Less investment expense:					
Investment management and custodial fees	131,161	-	131,161	-	131,161
Net investment income	4,699,755	-	4,699,755	-	4,699,755
Other additions	231,227	39,400	270,627	(19,590)	251,037
Total additions	20,163,063	39,400	20,202,463	(19,590)	20,182,873
Deductions:					
Benefit payments:					
Retirement	12,785,644	36,139	12,821,783	-	12,821,783
Survivors	6,512,043	61,993	6,574,036	-	6,574,036
Disability	831,539	-	831,539	-	831,539
Lump sum	205,965	-	205,965	-	205,965
Total benefit payments	20,335,191	98,132	20,433,323	-	20,433,323
Administrative	972,841	19,627	992,468	(19,590)	972,878
Total deductions	21,308,032	117,759	21,425,791	(19,590)	21,406,201
Change in net position	(1,144,969)	(78,359)	(1,223,328)	-	(1,223,328)
Net position at beginning of year	66,733,803	98,593	66,832,396	-	66,832,396
Net position at end of year	$ 65,588,834	$ 20,234	$ 65,609,068	$ -	$ 65,609,068

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Marshall Islands Social Security Administration (MISSA), which comprise the statement of fiduciary net position as of September 30, 2016, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Deloitte + Touche LLP

June 23, 2017

Unresolved Prior Year Findings
Year Ended September 30, 2016

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