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, 2017 AND 2016

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

Years Ended September 30, 2017 and 2016
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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, 2017 and 2016, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MISSA as of September 30, 2017 and 2016, 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.

Deloitte.

Emphasis-of-Matter

Uncertainty Regarding Funded Ratio

As discussed in Note 9 to the financial statements, MISSA may be unable to meet its future benefit obligations. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of MISSA's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2018 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

February 27, 2018

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, 2017 and 2016. 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 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 Net Position on page 8 and the Statements of Changes in Fiduciary Net Position on page 9 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.

On February 28, 2017, Bill No. 75ND2 (P.L. 2017-30) was passed by the Nitijela of the Marshall Islands. This was subsequently certified by the Speaker on March 9, 2017, the effective date of the new law. As projected, the MISSA reform law impacted significantly the operations of the Administration, more particularly on its cash flow. With contributions increasing by $3.101 million (or 20.36%) from last fiscal year and the RMI Government's cash subsidy of $3.3 million for FY 2017 being released on time, MISSA was able to meet its benefit payments and administrative expenses without interruption, with only $1 million being drawn down from its investments during the fiscal year. In FYs 2016 and 2015, MISSA has withdrawn $6.8 million and $4.5 million, respectively. The last investment drawdown of $1 million was made in November 2016.

MISSA's investments, both locally and overseas, performed exceptionally well. As of September 30, 2017, the market value of the Administration's offshore investments increased by $5.33 million and totaled $53.6 million, with all asset classes combined yielding 11.05% return. Likewise, MISSA's equity investment with Marshall Islands Holdings, Inc. (MIHI), the holding company of the Bank of the Marshall Islands (BOMI) increased by $1.4 million. Further, $459,963 was received by MISSA as cash dividends for CY 2017 from MIHI/BOMI.

The latest actuarial valuation report indicated an unfunded Actuarial Accrued Liability (AAL) of $384 million or 84% as of October 1, 2014. It has increased by $119 million when compared with the $250.6 million unfunded AAL as of October 1, 2013. Another actuarial valuation (as of October 1, 2017) is in progress. With certain assumptions being changed to show more realistic figures, MISSA is now more confident that its funded status will significantly improve both in the short and long-terms.

As of September 30, 2017, MISSA's total net position held in reserve for future benefits amounted to $72.71 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, 2017, 2016 and 2015 is presented below:

	2017	2016	2015
ASSETS			
Cash and cash equivalents	$ 1,363,901	$ 970,364	$ 772,855
Receivables, net:			
Contributions	2,932,912	1,951,979	1,784,736
Other	806,654	793,487	678,480
Investments:			
Cash Management	76,368	276,230	53,257
Stocks	23,217,668	18,832,721	18,530,271
Mutual funds	46,275,398	44,715,832	47,805,484
Fixed assets, net	40,185	65,112	72,652
Total assets	74,713,086	67,605,725	69,697,735
LIABILITIES			
Accounts payable	135,200	80,118	82,144
Other liabilities and accruals	70,876	76,685	136,151
Due to affiliates	1,792,429	1,839,854	2,647,044
Total liabilities	1,998,505	1,996,657	2,865,339
NET ASSETS			
Held in trust for future benefits	$72,714,581	$65,609,068	$66,832,396

A summary of MISSA's Statements of Changes in Fiduciary Net Position for the years ended September 30, 2017, 2016 and 2015 is presented below:

	2017	2016	2015
Additions:			
Contributions	$18,333,207	$15,232,081	$14,058,434
Net investment income	7,211,662	4,699,755	264,911
RMI Subsidy	3,273,600	-	-
Other	433,646	251,037	365,149
Total additions	29,252,115	20,182,873	14,688,494
Deductions:			
Benefit payments	21,189,518	20,433,323	19,261,636
Administrative	957,084	972,878	961,119
Total deductions	22,146,602	21,406,201	20,222,755
Change in fiduciary net position	$ 7,105,513	$(1,223,328)	$(5,534,261)

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in MISSA's report on the audit of its financial statements dated June 23, 2017. Such Management Discussion and Analysis explains the major factors impacting the fiscal year 2016 financial statements and can be obtained from MISSA's Administrator via the contact information on page 7.

Additions:

Like in previous years, the RMI Government has consistently paid its bi-weekly remittances on time, which comprised 30.5% of total contributions. As a result of the 1% increase in the Retirement Fund rate and increase in the cap on taxable wages from $5,000 to $10,000 per quarter effective, March 9, 2017, contributions have increased from $15,232,081 in fiscal year 2016 to $18,333,207 the following fiscal year.

The following table presents MISSA's investment allocations as of September 30, 2017 with comparative figures in 2016.

	As of September 30, 2017				As of September 30, 2016			
Investment Type	**Weight**	**Target**	**Market Value ($'000)**	**Target Value ($'000)**	**Weight**	**Target**	**Market Value ($'000)**	**Target Value ($'000)**
Small Cap	5.29%	4.80%	$ 2,833	$ 2,572	4.22%	2.40%	$ 2,077	$ 1,182
Small Cap Value	7.77%	7.50%	4,162	4,019	5.54%	3.75%	2,727	1,847
Large Cap Growth	3.66%	3.30%	1,959	1,768	0.00%	0.00%	0	0
Large Cap	5.90%	5.40%	3,163	2,893	5.33%	3.45%	2,626	1,700
Large Cap Value	8.66%	8.40%	4,642	4,501	5.78%	3.90%	2,846	1,921
Int'l Small Cap	4.88%	4.50%	2,617	2,411	3.54%	2.25%	1,744	1,109
Int'l Small Cap Value	5.86%	5.40%	3,138	2,893	4.32%	2.70%	2,130	1,330
Int'l Large Cap	0.78%	4.50%	417	2,411	3.68%	2.25%	1,813	1,109
Int'l Large Cap Value	5.64%	5.40%	3,021	2,893	3.61%	2.70%	1,780	1,330
Emerging Markets	4.55%	4.20%	2,439	2,251	3.20%	2.10%	1,574	1,035
Domestic Real Estate	3.16%	3.30%	1,691	1,768	3.35%	2.25%	1,649	1,109
International Real Estate	3.30%	3.30%	1,770	1,768	3.30%	2.25%	1,627	1,109
Bonds	40.41%	40.00%	21,653	21,433	53.58%	69.90%	23,398	34,437
Cash and Equivalents	0.14%	0.00%	76g	0	0.55%	0.10%	276	49
TOTAL	**100%**	**100%**	**$53,581**	**$53,581**	**100%**	**100%**	**$49,267**	**$49,267**

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 risk 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, 2017, the fair market value of MISSA's investments in the U.S. and international markets increased by $5.33 million and totaled $53,581,753 due to the positive performance of all asset classes in MISSA's portfolio. Likewise, investment drawdown was brought down to just $1 million, compared with the $6.8 million and $4.5 million withdrawals in FYs 2016 and 2015, respectively. A total of $1.55 million in dividends and interest payments were received and subsequently reinvested. Investment management fees have decreased by 3.40% from $131,161 in 2016 to $126,704 in 2017.

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 owns 65,417 shares of stocks of BOMI valued at $10,959,846. On April 30, 2014, MISSA received additional 69 shares from MIHI, increasing the Administration's shares to 65,486. As of September 30, 2017, MISSA's interest at MIHI increased in value by $1.43 million representing BOMI's fiscal year equity earnings. Annual dividend payments of $459,963 and $458,902 were received from MIHI in December 2017 for calendar year 2016 and in December 2016 for calendar year 2015, respectively. As of September 30, 2017 and 2016, the shares at MIHI and BOMI were valued at $15.96 million and $14.53 million, respectively. Furthermore, MISSA holds 3,000 shares of stocks at $10.00 par value from MISCo.

Deductions:

Deductions represent benefit payments and administrative expenses. For the year ended September 30, 2017, total deductions amounted to $22.15 million, which is 3.45% higher than the $21.41 million paid in the previous year. Despite the benefit reduction brought about by the new MISSA law, benefit payments for fiscal year 2017 increased by 3.72% to a total of $21.19 million as compared to $20.43 million paid in fiscal year 2016, due to new retirees in FY 2017. Administrative expenses were maintained within the budgetary limit. For the years ended September 30, 2017 and 2016, MISSA's administrative expenses totaled $957,084 and $972,878, respectively. These amounts represent 5.14% and 6.56% 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.

MISSA'S FUTURE INITIATIVES AND ECONOMIC OUTLOOK

With the reform law taking effect starting March 9, 2017, MISSA is now looking forward to continuing its collaboration with the RMI Government and seeking further options to narrow down the gap between contributions and benefits.

MISSA has reiterated many times that the new law is only aimed at addressing the short and medium term cash flow of the Administration and does not guarantee a long-term solution to the Fund's financial viability. Without further changes to the new system, the Administration will eventually end up with another shortfall in the very near future and continue to dip into its investments. The Government's subsidy of $3 million to $4 million a year will not be enough because contributions are expected to remain flat in the coming years while benefits are expected to increase by at least $1 million annually. A five year cash projection of MISSA revealed that the Administration will need at least $24 million from the Government to remain with a positive cash flow if no further reforms to the new system is implemented.

MISSA has started to focus on new option plans to be presented to the revamped MISSA Board of Directors and Nitijela for further legislation. Upon request of MISSA management, Wilshire Associates (MISSA's consultant and actuary) has completed 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.

The results revealed that the actual mortality rates overall is materially greater than the assumed rates used in the 2014 valuation. This is an indication that it is prudent to use higher expected mortality rates when calculating the actuarial liability to better reflect actuarial mortality experience for the population. Holding everything else constant, increasing the mortality rates will lower the calculated liability and decrease the life expectancy to better match actual island mortality (71.3 years for males and 72.5 years for females based on the 2011 RMI census). The recommended mortality rates will be used in the ongoing actuarial valuation being conducted for MISSA (as of October 1, 2017).

Wilshire also noted material differences between the assumed and actual turnover rates for non-citizens and recommended to increase the turnover assumption for years 1, 2 and 4, and decrease year 3 as follows:

Years of Service	Assumed Turnover Rates	Proposed Turnover Rates
1	5%	30%
2	5%	25%
3	80%	25%
4	5%	15%
5+	5%	5%

The net change of these assumptions will decrease the liability value.

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;
* Increase in the number of quarters required from 38 to 50 quarters.

The Administration is also studying the establishment of a maximum lifetime 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 in their lifetime. Another option being considered in the past is the conversion of the present defined benefit plan to a defined contribution scheme or a combination of both (also called a hybrid plan).

We will also reflect on the option of amending the provision on non-citizen beneficiaries overseas who currently are required to report to MISSA every six months in order to continue receiving their benefits. Under existing law, "unless modified by a totalization agreement, no more than 6 months of benefit payments shall be paid to any beneficiary who is not a citizen of the Marshall Islands, Republic of Palau, Federated States of Micronesia and the United States of America, while the beneficiary has been outside the country." A lump-sum option is now being considered.

The recent appointment of a new set of MISSA Directors that included three members of the Nitijela is expected to bring the Administration's voice closer to our legislators. It is always MISSA'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. Even with continuous government appropriations in the coming years, it is still imminent that the Fund will be depleted by constant 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, 2017 and 2016

	2017	2016
ASSETS		
Cash	$ 1,363,901	$ 970,364
Receivables, net:		
Contributions	2,932,912	1,951,979
Other	806,654	793,487
Total receivables, net	3,739,566	2,745,466
Investments:		
Cash management	76,368	276,230
Stocks	23,217,668	18,832,721
Mutual funds	46,275,398	44,715,832
Total investments	69,569,434	63,824,783
Capital assets, net	40,185	65,112
Total assets	74,713,086	67,605,725
LIABILITIES		
Accounts payable	135,200	80,118
Other liabilities and accruals	70,876	76,685
Due to affiliate	1,792,429	1,839,854
Total liabilities	1,998,505	1,996,657
Contingencies		
NET POSITION		
Held in trust for retirement, disability and survivors' benefits	$ 72,714,581	$ 65,609,068

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, 2017 and 2016

	2017	2016
Additions:		
Contributions:		
Private employees	$ 11,935,756	$ 9,593,133
Government employees	5,840,515	4,519,820
Penalties and interest	853,957	721,491
Total contributions	18,630,228	14,834,444
Add recovery from (allowance for) doubtful accounts	(297,021)	397,637
Net contributions income	18,333,207	15,232,081
Investment income:		
Net change in the fair value of investments	5,787,469	3,267,199
Dividends	1,546,537	1,560,416
Interest	4,360	3,301
Total investment income	7,338,366	4,830,916
Less investment expense:		
Investment management and custodial fees	126,704	131,161
Net investment income	7,211,662	4,699,755
Other additions	433,646	251,037
RepMar subsidy	3,273,600	-
Total additions	29,252,115	20,182,873
Deductions:		
Benefit payments:		
Retirement	13,216,250	12,821,783
Survivors	6,897,351	6,574,036
Disability	887,350	831,539
Lump sum	188,567	205,965
Total benefit payments	21,189,518	20,433,323
Administrative	957,084	972,878
Total deductions	22,146,602	21,406,201
Change in net position	7,105,513	(1,223,328)
Net position at beginning of year	65,609,068	66,832,396
Net position at end of year	$ 72,714,581	$ 65,609,068

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.

On March 20, 2016, the Cabinet of RepMar established a National Task Force to review the financial status of MISSA and to make recommendations for reform in order to prolong the longevity of the Retirement Fund. On September 29, 2016, the Nitijela enacted RepMar Public Law 2016-26 (the Social Security (Amendment) Act 2016), which implemented reform measures as recommended by the task force with an effective date of January 1, 2017. On February 28, 2017, the Nitijela enacted RepMar Public Law 2017-30 (the Marshall Islands Social Security (Amendment) Act 2017), which further enhanced the reform measures outlined in Public Law 2016-26 and deferred the effective date to March 6, 2017.

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*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, 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.

(2) Summary of Significant Accounting Policies, Continued

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.

D. Investments

Investments 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 accounting principles generally accepted in the United States of America (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.

(2) Summary of Significant Accounting Policies, Continued

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.

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, 2017 and 2016, the accumulated annual leave liability amounted to $31,250 and $33,381, 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, 2017 and 2016 is $15,800 and $18,536, 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 by the Marshall Islands Social Security (Amendment) Act 2017, 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. Employees are required to contribute an amount equal to 7% of wages received prior to March 6, 2017 and 8% thereafter. Every employer is required to contribute an amount equal to that contributed by employees.

Maximum quarterly taxable wages are $5,000 prior to March 6, 2017 and $10,000 thereafter.

(2) Summary of Significant Accounting Policies, Continued

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 60 years prior to March 6, 2017 and has filed an application for old age insurance benefits. Thereafter, the old age insurance benefits has been redefined as follows: a fully insured worker who has attained an age of 61 years by March 6, 2017; 62 years by January 1, 2019; 63 years by January 1, 2021; 64 years by January 1, 2023; and 65 years by January 1, 2025 shall be entitled to old age insurance benefits. Effective March 6, 2017, new applications for early or deferred retirement benefits will no longer be allowed.

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.

Effective March 6, 2017, Public Law 2017-30 enacted MISSA to enforce a decrease in monthly benefit payments, which was to be phased in over a period of three years as follows:

Monthly Benefit Range	Percent of Reduction in 2017	2018	2019	But Not Less Than
$301 - $400	1.67%	3.33%	5.00%	$300
$401 - $500	2.00%	4.00%	6.00%	$380
$501 - $600	2.33%	4.67%	7.00%	$470
$601 - $700	2.67%	5.33%	8.00%	$558
$701 - $800	3.00%	6.00%	9.00%	$644
$801 - $1,700	3.33%	6.67%	10.00%	$728 - $1,440

The maximum monthly benefit for retirees prior to March 6, 2017 shall be $1,600. Thereafter, the maximum monthly benefit shall be $1,200.

(2) Summary of Significant Accounting Policies, Continued

L. New Accounting Standards

During the year ended September 30, 2017, MISSA implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

- GASB 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).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB 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*.

- GASB 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.

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

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.

(2) Summary of Significant Accounting Policies, Continued

L. New Accounting Standards, Continued

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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits. The provisions in Statement No. 85 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 May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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 June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

M. Estimates

The preparation of financial statements in accordance with GAAP 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, 2017 and 2016, received an allocation of $220,600 and $39,400, respectively, from PSTFA. Total benefits and administrative expenses for the years ended September 30, 2017 and 2016 amounted to $114,581 and $117,759, 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, 2017, the amount of $126,253 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.

(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.

(4) Deposits and Investments, Continued

(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, 2017 and 2016, the carrying amount of MISSA's cash was $1,363,901 and $970,364, respectively, and the corresponding bank balances were $1,409,698 and $970,364, respectively. Of the bank balances, $1,336,692 and $930,183, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $73,006 and $347,987, respectively, are maintained in a financial institution not subject to depository insurance. As of September 30, 2017 and 2016, 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, 2017 and 2016, investments in marketable securities are as follows:

	2017	2016
Mutual funds	$ 46,275,398	$ 44,715,832
Exchange Traded funds	7,229,987	4,274,618
Cash management funds	76,368	276,230
	$ 53,581,753	$ 49,266,680

(4) Deposits and Investments, Continued

B. Investments, Continued

MISSA has the following recurring fair value measurements as of September 30, 2017 and 2016:

	September 30, 2017	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	$ 7,229,987	$ 7,229,987	$ -	$ -
Mutual funds	46,275,398	46,275,398	-	-
	53,505,385	$ 53,505,385	$ -	$ -
Investments measured at amortized cost:				
Money market funds	76,368			
	$ 53,581,753			

	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			

Additionally, MISSA owns 65,809 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, 2017 and 2016. At September 30, 2017 and 2016, MISSA's investment in MIHI amounted to $15,957,681 and $14,528,103, respectively. The investment in MISC is stated at NAV. At September 30, 2017 and 2016, MISSA's investment in MISC amounted to $30,000.

As of September 30, 2017 and 2016, MISSA maintained bank deposits with BOMI totaling $73,006 and $347,987, respectively. During the years ended September 30, 2017 and 2016, MISSA received cash dividend payments from MIHI of $459,963 and $458,902, respectively.

(4) Deposits and Investments, Continued

B. Investments, Continued

During the years ended September 30, 2017 and 2016, the total net increase in fair value of investments included $1,889,541 and $1,559,427, respectively, of equity in the net earnings of MIHI.

A summarized financial information of MIHI is presented on the table below:

	As of the quarter ended September 30, 2017 and for the period from January 1, 2017 to September 30, 2017 (Unaudited)	As of and for the year ended December 31, 2016 (Audited)
Total assets	$ 115,017,861	$ 115,674,512
Total liabilities	$ 68,251,702	$ 73,487,324
Equity:		
Attributable to stockholders of MIHI	$ 44,139,598	$ 40,007,971
Noncontrolling interest	$ 2,626,561	$ 2,179,217
Net income attributed to:		
Stockholder of MIHI	$ 3,724,673	$ 4,343,048
Noncontrolling interests	$ 304,684	$ 256,149

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At September 30, 2017 and 2016, 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, 2017 and 2016.

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, 2017 and 2016, 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, 2017 and 2016, including applicable allowances for doubtful accounts, are as follows:

	2017	2016
Court judgments	$ 5,151,361	$ 5,112,148
Contributions	4,761,971	3,474,638
Notes	978,067	1,031,762
Other	97,265	78,994
	10,988,664	9,697,542
Less allowance for doubtful accounts	(7,249,098)	(6,952,076)
	$ 3,739,566	$ 2,745,466

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, 2017 and 2016, MISSA recorded amounts payable to the Marshall Islands Health Fund of $1,792,429 and $1,839,854, 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.

During the year ended September 30, 2017, MISSA received an appropriation of $3,273,600 from RepMar's General Fund to subsidize the reduction in monthly benefit payments as enacted by Public Law 2017-30.

(7) Capital Assets

Capital asset activity for the years ended September 30, 2017 and 2016, is as follows:

	October 1, 2016	Additions	Retirements	September 30, 2017
Buildings and improvements	$ 511,597	$ -	$ -	$ 511,597
Computer equipment	109,382	7,960	-	117,342
Motor vehicles	95,300	-	-	95,300
Office equipment	94,201	1,190	-	95,391
Furniture	59,467	-	-	59,467
	869,947	9,150	-	879,097
Less accumulated depreciation and amortization	(804,835)	(34,077)	-	(838,912)
	$ 65,112	$ (24,927)	$ -	$ 40,185

(7) Capital Assets, Continued

	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

(8) Employee Retirement Plan

Effective March 31, 2017, MISSA implemented a defined contribution retirement savings plan (the Plan) for its employees who have completed at least 3 months of service. Plan participants may contribute up to 10% of their gross salaries, with MISSA paying 20% of the employees' share for those with two years of service, 40% for three years of service, 60% for four years of service, 80% for five years of service and 100% for six years of service or more. Withdrawal from the Plan occurs upon termination of employment, retirement at age 65, permanent disability or death. Plan assets are held in a trust fund administered by a trustee in accordance with the trust agreement. Management has the authority to establish or amend Plan provisions and contribution requirements. MISSA contributed $12,925 to Plan participant accounts during the year ended September 30, 2017 and total plan assets were $28,377 as of September 30, 2017.

(9) 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, 2017, MISSA recorded total fund equity of $72,588,328 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.

No actuarial valuation of the Retirement Fund was obtained during the year ended September 30, 2017.

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.

(10) 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.

(11) Subsequent Events

On November 10, 2017, MISSA's Board of Directors approved the acquisition of 76,925 shares in Marshall Islands Service Corporation (MISC) at $13 per share. On December 22, 2017, MISSA purchased 38,469 shares in MISC at a cost of $500,097.

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

Combining Statement of Fiduciary Net Position
September 30, 2017

	Retirement Fund	Prior Service Fund	Total Before Elimination	Elimination	Total
ASSETS					
Cash	$ 1,215,300	$ 148,601	$ 1,363,901	$ -	$ 1,363,901
Receivables, net:					
Contributions	2,932,912	-	2,932,912	-	2,932,912
Other	825,079	600	825,679	(19,025)	806,654
Total receivables, net	3,757,991	600	3,758,591	(19,025)	3,739,566
Investments:					
Cash management	76,368	-	76,368	-	76,368
Stocks	23,217,668	-	23,217,668	-	23,217,668
Mutual funds	46,275,398	-	46,275,398	-	46,275,398
Total investments	69,569,434	-	69,569,434	-	69,569,434
Capital assets, net	40,185	-	40,185	-	40,185
Total assets	74,582,910	149,201	74,732,111	(19,025)	74,713,086
LIABILITIES					
Accounts payable	135,200	-	135,200	-	135,200
Other liabilities and accruals	66,954	22,947	89,901	(19,025)	70,876
Due to affiliate	1,792,429	-	1,792,429	-	1,792,429
Total liabilities	1,994,583	22,947	2,017,530	(19,025)	1,998,505
NET POSITION					
Held in trust for retirement, disability and survivors' benefits	$ 72,588,327	$ 126,254	$ 72,714,581	$ -	$ 72,714,581

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, 2017

	Retirement Fund	Prior Service Fund	Total Before Elimination	Elimination	Total
Additions:					
Contributions:					
Private employees	$ 11,935,756	$ -	$ 11,935,756	$ -	$ 11,935,756
Government employees	5,840,515	-	5,840,515	-	5,840,515
Penalties and interest	853,957	-	853,957	-	853,957
Total contributions	18,630,228	-	18,630,228	-	18,630,228
Less allowance for doubtful accounts	(297,021)	-	(297,021)	-	(297,021)
Net contributions income	18,333,207	-	18,333,207	-	18,333,207
Investment income:					
Net change in the fair value of investments	5,787,469	-	5,787,469	-	5,787,469
Dividends	1,546,537	-	1,546,537	-	1,546,537
Interest	4,360	-	4,360	-	4,360
Total investment income	7,338,366	-	7,338,366	-	7,338,366
Less investment expense:					
Management and custodial fees	126,704	-	126,704	-	126,704
Net investment income	7,211,662	-	7,211,662	-	7,211,662
Other additions	232,065	220,600	452,665	(19,019)	433,646
RepMar subsidy	3,273,600	-	3,273,600	-	3,273,600
Total additions	29,050,534	220,600	29,271,134	(19,019)	29,252,115
Deductions:					
Benefit payments:					
Retirement	13,182,532	33,718	13,216,250	-	13,216,250
Survivors	6,835,585	61,766	6,897,351	-	6,897,351
Disability	887,350	-	887,350	-	887,350
Lump sum	188,567	-	188,567	-	188,567
Total benefit payments	21,094,034	95,484	21,189,518	-	21,189,518
Administrative	957,006	19,097	976,103	(19,019)	957,084
Total deductions	22,051,040	114,581	22,165,621	(19,019)	22,146,602
Change in net position	6,999,494	106,019	7,105,513	-	7,105,513
Net position at beginning of year	65,588,834	20,234	65,609,068	-	65,609,068
Net position at end of year	$ 72,588,328	$ 126,253	$ 72,714,581	$ -	$ 72,714,581

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, 2017, 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 February 27, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies as item 2017-001.

Deloitte.

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

February 27, 2018

Finding No. 2017-001

Unauthorized encashment of unclaimed benefit checks on hand

Criteria: Adequate internal control policies and procedures should be established and implemented requiring timely monitoring of unclaimed benefit checks on hand.

Condition: A MISSA employee allegedly encashed certain unclaimed benefit checks on hand. Based on an investigation conducted by MISSA management, it was estimated that the total amount involved was $11,900. The employee has since been dismissed by MISSA. As of September 30, 2017, unclaimed benefit checks on hand for six months or more totaled $18,340 with an additional $124,809 in benefit checks that remain unclaimed for less than six months.

Cause: The cause of the above condition is inadequate internal control policies and procedures that resulted in the encashment of benefit checks. These checks were either mailed to a post office box which were subsequently returned by the post office or were for beneficiaries located on Ebeye who are deceased or who have transferred to another place of residence and cannot be located.

Effect: The effect of the above condition is exposure to possible misstatements in related accounts and increased risk of fraud, cash theft or unauthorized encashment of unclaimed benefit checks on hand.

Recommendation: We recommend management establish and implement internal control policies and procedures over unclaimed benefit checks on hand to minimize the risk of fraud or misappropriation of benefit payments.

Auditee Response and Corrective Action Plan: We have strengthened our internal control on benefit checks by strictly putting in place additional policies and procedures. Movements of all benefit checks are now closely monitored in a log from printing to distribution/issuance. To ensure proper check and balance, an independent verification of unclaimed benefit checks by our Chief Accountant is done on a regular basis. Checks that remain unclaimed for more than one month are given to the Deputy Administrator for safekeeping and are voided when they remain unclaimed after six months. Likewise, checks that remain unclaimed in our Ebeye office are voided before transmittal back to the Head Office. To lessen the number of checks sent to post office boxes, we have encouraged beneficiaries to open bank accounts and we also make telephone calls regularly to those who do not claim their benefits on time.

Right after MISSA had discovered the embezzlement case, we conducted an independent investigation that led to the confession of the subject employee and her immediate dismissal. The case was subsequently reported to the Auditor General (AG). We are now in constant coordination with the team of investigators from the AG's office who have yet to complete gathering enough evidence before criminal prosecution is initiated. We shall also enforce a strict code of conduct on personal relationship among our employees to prevent collusion, as we also consider the possibility that another staff may have connived with the subject employee.

Our internal auditor will be given broader internal control functions on cash/check control that will include surprise verification of checks in custody of the cashier and independent checking whether the policies and procedures on treasury operations are strictly and consistently followed.

Unresolved Prior Year Findings
Year Ended September 30, 2017

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