

MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2001

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Social Security Administration:

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, as of September 30, 2001, and for the year then ended. These financial statements are the responsibility of the management of MISSA. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MISSA as of September 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Combining Balance Sheet - Expendable Trust Funds (page 19) and the Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - Expendable Trust Funds (page 20) are presented for purposes of additional analysis and are not a required part of the basic financial statements. This additional information is the responsibility of MISSA's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2002, on our consideration of MISSA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche

February 18, 2002
(except for note 12, as to which the date is April 11, 2002)

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combined Balance Sheet - All Fund Types and Account Group
September 30, 2001

(With comparative totals as of September 30, 2000)

	Governmental	Fiduciary	Proprietary	Account	Totals	
	Fund Type	Fund Type	Fund Type	Group	Reporting Entity	
	Special Revenue	Expendable Trust	Enterprise	General Fixed Assets	2001	2000
ASSETS						
Cash and cash equivalents	\$ 57,239	\$ 4,038,859	\$ -	\$ -	\$ 4,096,098	\$ 3,239,924
Time certificate of deposit	-	1,660,528	-	-	1,660,528	540,329
Investments (note 3)	-	25,159,143	-	-	25,159,143	31,568,947
Receivables, net (note 4):						
Contributions	-	2,815,460	-	-	2,815,460	2,546,250
Other	26,410	1,181,993	21,226	-	1,229,629	643,210
Prepaid items	295,467	5,008	-	-	300,475	231,882
Receivables from affiliates, net (note 5)	3,494	897,173	-	-	900,667	1,396,729
Duc from other funds, net (note 6)	-	2,519,369	-	-	2,519,369	8,284,807
Fixed assets, net (note 7)	-	-	-	786,185	786,185	894,515
	<u>\$ 382,610</u>	<u>\$ 38,277,533</u>	<u>\$ 21,226</u>	<u>\$ 786,185</u>	<u>\$ 39,467,554</u>	<u>\$ 49,346,593</u>
LIABILITIES AND FUND EQUITY (DEFICIENCY)						
Liabilities:						
Bank overdraft	\$ 29,142	\$ 48,385	\$ -	\$ -	\$ 77,527	\$ 110,867
Accounts payable	406,795	355,362	-	-	762,157	1,080,019
Claims payable	-	1,225,771	204,666	-	1,430,437	853,870
Unearned income	-	-	845	-	845	779
Due to other funds (note 6)	-	1,943,086	1,542,737	-	3,485,823	9,251,261
Other liabilities and accruals	4,356	156,069	-	-	160,425	140,591
Total liabilities	<u>440,293</u>	<u>3,728,673</u>	<u>1,748,248</u>	<u>-</u>	<u>5,917,214</u>	<u>11,437,387</u>
Fund equity (deficiency):						
Investment in general fixed assets (note 7)	-	-	-	786,185	786,185	894,515
Deficit	-	-	(1,727,022)	-	(1,727,022)	(1,538,783)
Fund balances (deficit):						
Reserved for retirement, disability and survivors benefits	-	28,982,571	-	-	28,982,571	33,586,967
Reserved for reduction-in-force payments	-	301,022	-	-	301,022	87,930
Reserved for related assets	230,712	7,601,224	-	-	7,831,936	11,916,826
Unreserved	(288,395)	(2,335,957)	-	-	(2,624,352)	(7,038,249)
Total fund equity (deficiency)	<u>(57,683)</u>	<u>34,548,860</u>	<u>(1,727,022)</u>	<u>786,185</u>	<u>33,550,340</u>	<u>37,909,206</u>
Contingencies (note 10)						
	<u>\$ 382,610</u>	<u>\$ 38,277,533</u>	<u>\$ 21,226</u>	<u>\$ 786,185</u>	<u>\$ 39,467,554</u>	<u>\$ 49,346,593</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Special Revenue and Expendable Trust Funds
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)**

	Governmental Fund Type	Fiduciary Fund Type	Totals Reporting Entity	
	Special Revenue	Expendable Trust	(Memorandum Only)	
			2001	2000
Revenues:				
Contributions:				
Private employees	\$ -	\$ 10,133,525	\$ 10,133,525	\$ 8,408,730
Government employees	-	3,010,712	3,010,712	2,586,125
Penalties and interest	-	210,176	210,176	37,589
	<u>-</u>	<u>13,354,413</u>	<u>13,354,413</u>	<u>11,032,444</u>
Investment income:				
Interest and dividends	4,493	980,978	985,471	906,170
Net (decrease) increase in the fair value of investments	-	(5,954,532)	(5,954,532)	6,399,206
	<u>4,493</u>	<u>(4,973,554)</u>	<u>(4,969,061)</u>	<u>7,305,376</u>
Other:				
Contributions from RepMar (note 9)	119,631	2,658,147	2,777,778	3,944,863
Hospital charges	208,137	-	208,137	203,141
Premiums	-	81,301	81,301	63,547
Compact funding	-	-	-	492,705
Other	337	2,393	2,730	2,809
	<u>328,105</u>	<u>2,741,841</u>	<u>3,069,946</u>	<u>4,707,065</u>
Total revenues	<u>332,598</u>	<u>11,122,700</u>	<u>11,455,298</u>	<u>23,044,885</u>
Expenditures:				
Benefit payments:				
Retirement	-	4,248,669	4,248,669	3,989,116
Healthcare	-	3,931,601	3,931,601	4,980,200
Survivors	-	2,797,078	2,797,078	2,579,726
Disability	-	840,425	840,425	722,222
Reduction-in-force (note 9)	-	285,055	285,055	344,262
Lump sum	-	57,794	57,794	22,555
Total benefit payments	<u>-</u>	<u>12,160,622</u>	<u>12,160,622</u>	<u>12,638,081</u>
Medical supplies	1,342,074	101	1,342,175	1,617,969
Administrative	64,617	1,154,973	1,219,590	1,314,715
Third party administrator fee	-	440,479	440,479	514,492
Investment management and custodial fees	-	309,083	309,083	229,812
Hospital equipment	45,646	-	45,646	157,702
Total expenditures	<u>1,452,337</u>	<u>14,065,258</u>	<u>15,517,595</u>	<u>16,472,771</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(1,119,739)</u>	<u>(2,942,558)</u>	<u>(4,062,297)</u>	<u>6,572,114</u>
Other financing sources (uses):				
Operating transfers in (note 8)	-	1,805,029	1,805,029	1,791,076
Operating transfers out (note 8)	(1,805,029)	-	(1,805,029)	(1,791,076)
Total other financing sources (uses), net	<u>(1,805,029)</u>	<u>1,805,029</u>	<u>-</u>	<u>-</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>(2,924,768)</u>	<u>(1,137,529)</u>	<u>(4,062,297)</u>	<u>6,572,114</u>
Fund balances at beginning of year	<u>2,867,085</u>	<u>35,686,389</u>	<u>38,553,474</u>	<u>31,981,360</u>
Fund balances (deficit) at end of year	<u>\$ (57,683)</u>	<u>\$ 34,548,860</u>	<u>\$ 34,491,177</u>	<u>\$ 38,553,474</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Statement of Revenues, Expenses and Changes in Deficit
 Proprietary Fund Type
 Year Ended September 30, 2001
 (With comparative totals for the year ended September 30, 2000)

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Premiums	\$ 526,722	\$ 339,733
Total operating revenues	<u>526,722</u>	<u>339,733</u>
Operating expenses:		
Benefit payments	<u>714,961</u>	<u>911,283</u>
Total operating expenses	<u>714,961</u>	<u>911,283</u>
Operating loss	(188,239)	(571,550)
Deficit at beginning of year	<u>(1,538,783)</u>	<u>(967,233)</u>
Deficit at end of year	<u>\$ (1,727,022)</u>	<u>\$ (1,538,783)</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Statement of Cash Flows
 Proprietary Fund Type
 Year Ended September 30, 2001
 (With comparative totals for the year ended September 30, 2000)

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Operating loss	\$ (188,239)	\$ (571,550)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Increase in assets:		
Premiums receivable	(21,226)	-
Increase in liabilities:		
Claims payables	204,666	-
Unearned income	<u>66</u>	<u>-</u>
Net cash used for operating activities	<u>(4,733)</u>	<u>(571,550)</u>
Cash flows from noncapital financing activities:		
Increase in interfund payable	<u>4,733</u>	<u>571,550</u>
Net cash provided by noncapital financing activities	<u>4,733</u>	<u>571,550</u>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(1) Reporting Entity

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. The Retirement Fund is reported as an Expendable Trust Fund of MISSA.

On March 6, 1991, the Nitijela of RepMar (the RepMar Legislature) passed Public Law 1991-118 (the Social Security Health Fund Act of 1991), as amended, which directed MISSA to administer the Marshall Islands Social Security Health Fund (the Health Fund) (see note 12). The Health Fund was established to provide a financially sound social security health fund to provide an orderly means to finance and deliver comprehensive medical care to the people of the Republic of the Marshall Islands in the face of spiraling costs of that care. The Health Fund consists of the following plans:

A. Basic Health Benefits Plan

A plan which provides, pays, or reimburses all or a determined portion of the cost of basic health care obtained at a local health care facility, or as an approved off-island medical referral, or as emergency off-island medical care. This plan became effective October 1, 1991. The Basic Health Benefits Plan is reported as an Expendable Trust Fund of MISSA.

B. Supplemental Health Benefits Plan

A plan which, for the payment of a premium and without the need for a referral by the medical referral committee, provides, pays, or reimburses all or a determined portion of the cost of supplemental health care at off-island health care facilities. The Supplemental Health Benefits Plan is reported as an Enterprise Fund of MISSA.

On September 13, 1994, the Nitijela of RepMar enacted the Consolidation of Funds Act of 1994, thereby amending the Health Care Revenue Fund Act of 1989, effective October 1, 1994, and authorizing MISSA to administer the Health Care Revenue Fund (see note 12). The Health Care Revenue Fund was established to use funds provided through appropriation by the Nitijela of RepMar and revenue received from hospital charges and other health care charges collected by the Ministry of Health Services for the purchase of drugs, medical supplies and equipment and the provision and administration of other health services. The Health Care Revenue Fund is reported as a Special Revenue Fund of MISSA.

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies

The financial statements of MISSA have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. MISSA has implemented GASB Statement No. 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of MISSA's accounting policies are described below.

A. Measurement Focus and Basis of Accounting

MISSA uses funds and an account group to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain MISSA functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

In the accompanying financial statements, MISSA's funds are classified into three categories: governmental, fiduciary and proprietary. Each category, in turn, is divided into "fund types".

There is one governmental fund, a Special Revenue Fund, used for the collection and disbursement of earmarked monies.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds. Assets held under the terms of a formal trust agreement are accounted for as Expendable Trust Funds. The term "expendable" indicates MISSA is not under an obligation to maintain the trust principal.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise Funds account for goods or services from such activities that can be provided to outside parties.

There is one account group. The General Fixed Assets Account Group is used to account for fixed assets not accounted for in proprietary funds.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Special Revenue Funds and Expendable Trust Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into retained earnings (deficit) components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by Special Revenue Funds and Expendable Trust Funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. MISSA considers all revenues available if they are collected within 90 days after year end. Expenditures are recorded when the related fund liability is incurred.

The accrual basis of accounting is utilized by Proprietary Funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

C. Budget

Budgets are not formally adopted on a legal basis or a basis consistent with accounting principles generally accepted in the United States of America. Accordingly, a budget to actual presentation is not required or presented.

D. Future Liabilities and Contributions

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

E. Cash and Cash Equivalents and Time Certificates of Deposit

For the purposes of the balance sheet and the statement of cash flows, cash and cash equivalents include cash in checking and savings accounts as well as short-term investments with original maturities of three months or less from the date acquired. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2001, the carrying amount of MISSA's cash and cash equivalents and time certificates of deposit was \$5,756,626, and the corresponding bank balance was \$6,485,087. Of the bank balance amount, \$503,062 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2001, bank deposits in the amount of \$212,668 were FDIC insured. MISSA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

F. Investments

Investments are stated at fair value as of September 30, 2001. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

An investment of 20% or more of the voting stock of an investee is presumed to give the investor significant influence. Under the equity method, the investor records, as earnings or loss, its proportionate share of the investee's earnings or loss.

G. Interfund Receivables/Payables

During the course of operations, MISSA records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the balance sheet.

H. Prepaid Items

Payments made to vendors or persons for services that will benefit periods beyond September 30, 2001, are recorded as prepaid items.

I. Receivables and the Allowance for Doubtful Accounts

Contributions receivable are due from employers located within the Republic of the Marshall Islands. Premiums receivable are due from members located within the Republic of the Marshall Islands and the United States of America. 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 collectibility of these accounts. The allowance is established through a provision for bad debts charged to expenditures.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

J. Fixed Assets

The accounting and reporting treatment applied to the fixed assets associated with a fund is determined by its measurement focus. Fixed assets used in fiduciary fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds. Fixed assets consist of buildings and improvements, motor vehicles, computer and office equipment, and furniture, and are stated at cost or estimated fair market value. No depreciation has been provided on general fixed assets. The estimated useful lives of these assets are as follows:

Building and improvements	20 years
Motor vehicles	3 years
Computer equipment	4 years
Office equipment	5 years
Furniture	3 - 10 years

K. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the expendable trust fund. The liability as of September 30, 2001, is \$48,982 and is included in the combined balance sheet within other liabilities and accruals. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2001, is \$42,082.

Annual leave accumulates at the rate of one working day per bi-weekly pay period.

L. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The reserve for related assets as of September 30, 2001, is represented by the following assets:

	<u>Governmental</u> <u>Fund Type</u> <u>Special</u> <u>Revenue</u>	<u>Fiduciary</u> <u>Fund Type</u> <u>Expendable</u> <u>Trust</u>	<u>Total</u>
Investments	\$ -	\$ 3,013,013	\$ 3,013,013
Other receivables	26,410	1,459,424	1,485,834
Prepaid items	200,808	-	200,808
Receivables from affiliates	3,494	609,418	612,912
Due from other funds	<u>-</u>	<u>2,519,369</u>	<u>2,519,369</u>
	<u>\$ 230,712</u>	<u>\$ 7,601,224</u>	<u>\$ 7,831,936</u>

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

M. Interfund Transactions

Operating appropriations/subsidies are accounted for as operating transfers or resources between funds.

N. Memorandum Only - Total Columns

Total columns on the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with accounting principles generally accepted in the United States of America. Interfund eliminations have not been made in the aggregation of this data.

O. Estimates

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

P. Contributions and Premiums

Contributions to the Retirement Fund (an Expendable Trust 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.

On October 3, 1996, the Nitijela of RepMar passed Public Law 1996-27, the Social Security (Amendment) Act of 1996, to provide that the one percent (1%) increase in contributions from employers and employees, which went into effect on July 1, 1995 for the Retirement Fund, shall be transferred to the Basic Health Benefits Plan.

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

Contributions to the Basic Health Benefits Plan (an Expendable Trust Fund) are governed by the Social Security Health Fund Act of 1991, as amended, which imposes a tax on the quarterly income of every employee equal to two and one-half percent of wages received (see note 12). The maximum quarterly taxable wages is \$5,000. Every employer is required to contribute an amount equal to that contributed by employees.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

P. Contributions and Premiums, Continued

Premiums paid to the Basic Health Benefits Plan (an Expendable Trust Fund) and the Supplemental Health Benefits Plan (an Enterprise Fund) are governed by the Social Security Health Fund Act of 1991, as amended, which allows citizens and legal residents of the Republic of the Marshall Islands, who are not otherwise eligible for benefits under this Act, to voluntarily pay a periodic premium to the Basic and Supplemental Health Benefits Plans and, thereby, become a covered person eligible for designated benefits of the Basic and Supplemental Health Benefits Plans. The amount of periodic premiums that must be paid to the Basic and Supplemental Health Benefits Plans are determined by the Board of Directors of MISSA.

Q. Benefit Payments

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 or work. 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 bendpoints 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.

The Reduction-in-Force (RIF) benefits are paid to those laid-off civil service employees during the downsizing process of RepMar through the Public Sector Reform Program. The monthly benefit payments are paid out on the basis of the current benefit rules of MISSA, as if the employee were aged fifty-five and "service insured", for a maximum period of three years, or for as long as the funds are available.

Health care benefits are paid to approved health care facilities according to the schedule of benefits. Benefit payments are paid according to the following:

Basic Health Benefits Plan:

- a) Health care obtained within the Republic of the Marshall Islands at an approved health care facility. The plan pays according to the schedule of benefits without a deductible or maximum limit.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

Q. Benefit Payments, Continued

Basic Health Benefits Plan, Continued:

- b) Health care obtained outside of the Republic of the Marshall Islands as approved off-island medical referral at an approved health care facility. The plan pays according to the schedule of benefits up to an annual maximum of \$100,000 per covered person.
- c) Health care obtained outside of the Republic of the Marshall Islands as emergency off-island medical care when traveling for 30 days or less. The plan pays accordingly to the schedule of benefits up to a maximum of \$1,000 after a \$100 deductible per incident.

Supplemental Health Benefits Plan:

- a) Health care obtained outside of the Republic of the Marshall Islands as self-referral to an approved health care facility. The plan pays according to the schedule of benefits up to an annual maximum of \$100,000 per covered person after a \$200 deductible for visits within a one year period. The co-insurance rate is 80%.

(3) Investments

GASB Statement No. 3 requires governmental entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

- Category 1 Insured or registered, or securities held by MISSA or its agent in MISSA's name;
- Category 2 Uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in MISSA's name; or
- Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in MISSA's name.

Investments of the Expendable Trust Fund as of September 30, 2001, are as follows:

	<u>Categories</u>			<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>
Retirement Fund:				
Common stocks	\$ 3,013,013	\$ 14,582,351	\$ -	\$ 17,595,364
U.S. Government notes and bonds	-	4,040,933	-	4,040,933
Corporate notes and bonds	-	3,171,414	-	3,171,414
U.S. Government agencies	-	351,432	-	351,432
	<u>\$ 3,013,013</u>	<u>\$ 22,146,130</u>	<u>\$ -</u>	<u>\$ 25,159,143</u>

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(3) Investments, Continued

On February 18, 1999, RepMar fully repaid a loan and related interest, totaling \$1,944,096, through transferring its ownership of 94,485 shares of Bank of Marshall Islands (BOMI) stock to MISSA. BOMI engages in commercial banking services in the Republic of the Marshall Islands, and MISSA holds a 32% interest in BOMI. As of September 30, 2001, MISSA maintained deposit accounts and a time certificate of deposit with BOMI of \$3,240,603.

A summary of financial information as of and for the year ended December 31, 2001, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>49,236,449</u>
Liabilities	\$ <u>39,656,121</u>
Net earnings	\$ <u>2,379,820</u>

(4) Receivables

Receivables as of September 30, 2001, including applicable allowances for doubtful accounts, are as follows:

	<u>Governmental Fund Type Special Revenue</u>	<u>Fiduciary Fund Type Expendable Trust</u>	<u>Proprietary Fund Type Enterprise Fund</u>	<u>Total</u>
Receivables:				
Contributions	\$ -	\$ 2,815,460	\$ -	\$ 2,815,460
Other	<u>49,104</u>	<u>2,530,119</u>	<u>21,226</u>	<u>2,600,449</u>
Gross receivables	49,104	5,345,579	21,226	5,415,909
Less allowance for doubtful accounts	<u>(22,694)</u>	<u>(1,348,126)</u>	<u>-</u>	<u>(1,370,820)</u>
Net total receivables	\$ <u>26,410</u>	\$ <u>3,997,453</u>	\$ <u>21,226</u>	\$ <u>4,045,089</u>

(5) Receivables from Affiliates

Receivables from affiliates as of September 30, 2001, including applicable allowances for doubtful accounts, are as follows:

	<u>Governmental Fund Type Special Revenue</u>	<u>Fiduciary Fund Type Expendable Trust</u>	<u>Total</u>
Other receivables:			
RepMar	\$ 3,494	\$ 1,142,748	\$ 1,146,242
Other	<u>-</u>	<u>2,382</u>	<u>2,382</u>
	3,494	1,145,130	1,148,624
Less allowance for doubtful accounts	<u>-</u>	<u>(247,957)</u>	<u>(247,957)</u>
	\$ <u>3,494</u>	\$ <u>897,173</u>	\$ <u>900,667</u>

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(6) Due From/To Other Funds

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2001, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Retirement Fund	Basic Health Benefits Plan	\$ 1,943,086
Basic Health Benefits Plan	Supplemental Health Benefits Plan	<u>1,542,737</u>
		<u>\$ 3,485,823</u>

The amount recorded as due to other funds of \$3,485,823 does not equal the corresponding due from other funds of \$2,519,369 due to an allowance for doubtful accounts of \$966,454 recorded by the Basic Health Benefits Plan (an Expendable Trust Fund).

During the year ended September 30, 2001, management of MISSA elected to write-off the interfund receivable due from the Basic Health Benefits Plan recorded by the Health Care Revenue Fund. Management is of the opinion that the Basic Health Benefits Plan is not legally bound nor is in a suitable financial condition to repay this balance prior to the transfer of the Health Care Revenue Fund to RepMar's Ministry of Health and Environment (see note 12). The net effect of this transaction has been reflected in the accompanying financial statements as a transfer out of the Health Care Revenue Fund to the Basic Health Benefits Plan in the amount of \$1,805,029.

(7) Fixed Assets

Activity in the General Fixed Assets Account Group for the year ended September 30, 2001, is as follows:

	<u>Balance October 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2001</u>
Buildings and improvements	\$ 380,564	\$ -	\$ -	\$ 380,564
Computer equipment	135,856	2,234	-	138,090
Motor vehicles	283,154	3,524	(149,804)	136,874
Office equipment	53,396	22,736	-	76,132
Furniture	<u>41,545</u>	<u>12,980</u>	<u>-</u>	<u>54,525</u>
	<u>\$ 894,515</u>	<u>\$ 41,474</u>	<u>\$ (149,804)</u>	<u>\$ 786,185</u>

(8) Transfers In/Out

Operating transfers in/out for all fund types, for the year ended September 30, 2001, are as follows:

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>Special Revenue Fund</u>		
To Basic Health Benefits Plan from Health Care Revenue Fund	\$ 1,805,029	\$ -
	<u>\$ 1,805,029</u>	<u>\$ -</u>

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(8) Transfers In/Out, Continued

Expendable Trust Fund

To Basic Health Benefits Plan from Health Care Revenue Fund	\$ _____	\$ <u>1,805,029</u>
	\$ <u>_____</u>	\$ <u>1,805,029</u>

(9) Contributions from RepMar

For the year ended September 30, 2001, MISSA received subsidies from RepMar amounting to \$2,160,000 and \$119,631 for the Basic Health Benefits Plan (an Expendable Trust Fund) and the Health Care Revenue Fund (a Special Revenue Fund), respectively, for the purpose of settling certain liabilities to third party administrators and to purchase drugs, medical supplies and equipment for the local hospitals.

Pursuant to the RIF program, MISSA received contributions from RepMar amounting to \$498,147 and expended RIF benefit payments amounting to \$285,055 for the year ended September 30, 2001.

(10) Contingencies

The Supplemental Health Benefits Plan (an Enterprise Fund) has incurred a net loss of \$188,239 during the year ended September 30, 2001 and has an accumulated deficit of \$1,727,022 as of September 30, 2001. Management believes that the continuation of the Supplemental Health Benefits Plan's operations is dependent upon the future financial support of the Basic Health Benefits Plan (an Expendable Trust Fund) and its ability to generate sufficient cash flows to meet its obligations on a timely basis. In addition, the Basic Health Benefits Plan has a total fund deficiency of \$484,465 as of September 30, 2001. Management believes that the continuation of the Basic Health Benefits Plan's operations is dependent upon the future financial support of RepMar.

Liabilities to health care providers and drug vendors as of September 30, 2001 are in dispute. Disputed amounts in excess of liabilities recorded by MISSA as of September 30, 2001 amount to \$2,501,638. Of the disputed amounts, four medical referrals' charges exceeded MISSA's contractual limit of \$100,000 per patient by \$800,821. In addition, \$337,852 of the disputed amounts related to Section 177 Health program patients. The ultimate outcome of these disputed liabilities can not be presently determined and, accordingly, no adjustment that may result from the resolution of this matter has been made in the accompanying financial statements.

In December 2000, MISSA obtained an actuarial valuation of the Retirement Fund as of September 30, 1998. The valuation reported actuarial accrued liabilities for the Retirement Fund of \$191,987,000. As of September 30, 2001, MISSA recorded a total fund equity of \$35,033,325 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 has not developed a formal plan as of September 30, 2001, to correct this potential funding deficiency.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2001

(10) Contingencies, Continued

In January 1998, MISSA obtained an actuarial valuation of the Basic Health Benefits Plan as of September 30, 1997. The valuation reported actuarial accrued liabilities for the Basic Health Benefits Plan of \$103,500,000. As of September 30, 2001, MISSA recorded a total fund deficiency of \$484,465 in the Basic Health Benefits Plan, as funds available to fund future benefit obligations. These conditions indicate that MISSA may be unable to meet its future benefit obligations. MISSA has not developed a formal plan as of September 30, 2001, to correct this potential funding deficiency.

MISSA is currently utilizing an apartment complex in Hawaii belonging to RepMar for off-island medical referral patients. No rental charges have been recorded by MISSA for fiscal years 1998 through 2001 as a rental agreement has not been executed with RepMar.

(11) Individual Fund Deficit or Accumulated Deficit

Specific individual funds that had individual fund deficits or accumulated deficits as of September 30, 2001, are as follows:

Expendable Trust Fund

Basic Health Benefits Plan \$ 484,465

Enterprise Fund

Supplemental Health Benefits Plan \$ 1,727,022

(12) Subsequent Events

On October 4, 2001, the Nitijela of RepMar passed Public Law 2001-35 to amend the Health Care Revenue Act of 1989 and to transfer the administration of the Health Care Revenue Fund to RepMar's Ministry of Health and Environment.

Effective January 1, 2002, the Basic Health Benefits Plan tax rate on the quarterly income of every employee increased from two and one-half percent to three and one-half percent.

On April 11, 2002, the Nitijela of RepMar passed Public Law 2002-57 to repeal the Social Security Health Fund Act of 1991 and to transfer the administration of the Health Fund to RepMar's Ministry of Health and Environment.

(13) 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.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combining Balance Sheet
Expendable Trust Funds
September 30, 2001

(With comparative totals as of September 30, 2000)

	Retirement Fund	Basic Health Benefits Plan	Totals	
			2001	2000
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,468,517	\$ 570,342	\$ 4,038,859	\$ 3,190,330
Time certificate of deposit	1,660,528	-	1,660,528	540,329
Investments	25,159,143	-	25,159,143	31,568,947
Receivables, net:				
Contributions	2,014,678	800,782	2,815,460	2,546,250
Other	804,216	377,777	1,181,993	554,180
Prepaid items	1,708	3,300	5,008	1,550
Receivables from affiliates, net	314,323	582,850	897,173	1,393,235
Due from other funds, net	1,943,086	576,283	2,519,369	3,751,770
	<u>\$ 35,366,199</u>	<u>\$ 2,911,334</u>	<u>\$ 38,277,533</u>	<u>\$ 43,546,591</u>
<u>LIABILITIES AND FUND EQUITY (DEFICIENCY)</u>				
Liabilities:				
Bank overdraft	\$ 19,566	\$ 28,819	\$ 48,385	\$ 59,467
Accounts payable	205,242	150,120	355,362	648,415
Claims payable	-	1,225,771	1,225,771	853,870
Due to other funds	-	1,943,086	1,943,086	6,157,859
Other liabilities and accruals	108,066	48,003	156,069	140,591
Total liabilities	<u>332,874</u>	<u>3,395,799</u>	<u>3,728,673</u>	<u>7,860,202</u>
Fund equity (deficiency):				
Fund balances (deficit):				
Reserved for retirement, disability and survivors benefits	28,982,571	-	28,982,571	33,586,967
Reserved for reduction-in-force payments	301,022	-	301,022	87,930
Reserved for related assets	5,749,732	1,851,492	7,601,224	7,126,977
Unreserved	-	(2,335,957)	(2,335,957)	(5,115,485)
Total fund equity (deficiency)	<u>35,033,325</u>	<u>(484,465)</u>	<u>34,548,860</u>	<u>35,686,389</u>
	<u>\$ 35,366,199</u>	<u>\$ 2,911,334</u>	<u>\$ 38,277,533</u>	<u>\$ 43,546,591</u>

See Accompanying Independent Auditors' Report.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Expendable Trust Funds
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)

	Retirement Fund	Basic Health Benefits Plan	Totals	
			2001	2000
Revenues:				
Contributions:				
Private employees	\$ 6,999,625	\$ 3,133,900	\$ 10,133,525	\$ 8,408,730
Government employees	2,108,706	902,006	3,010,712	2,586,125
Penalties and interest	149,890	60,286	210,176	37,589
	<u>9,258,221</u>	<u>4,096,192</u>	<u>13,354,413</u>	<u>11,032,444</u>
Investment income:				
Interest and dividends	965,737	15,241	980,978	906,170
Net (decrease) increase in the fair value of investments	<u>(5,954,532)</u>	<u>-</u>	<u>(5,954,532)</u>	<u>6,399,206</u>
	<u>(4,988,795)</u>	<u>15,241</u>	<u>(4,973,554)</u>	<u>7,305,376</u>
Other:				
Contributions from RepMar	498,147	2,160,000	2,658,147	3,425,834
Premiums	-	81,301	81,301	63,547
Other	883	1,510	2,393	2,809
	<u>499,030</u>	<u>2,242,811</u>	<u>2,741,841</u>	<u>3,492,190</u>
Total revenues	<u>4,768,456</u>	<u>6,354,244</u>	<u>11,122,700</u>	<u>21,830,010</u>
Expenditures:				
Benefit payments:				
Retirement	4,248,669	-	4,248,669	3,989,116
Healthcare	-	3,931,601	3,931,601	4,980,200
Survivors	2,797,078	-	2,797,078	2,579,726
Disability	840,425	-	840,425	722,222
Reduction-in-force	285,055	-	285,055	344,262
Lump sum	57,794	-	57,794	22,555
Total benefit payments	<u>8,229,021</u>	<u>3,931,601</u>	<u>12,160,622</u>	<u>12,638,081</u>
Administrative	802,040	352,933	1,154,973	1,255,855
Third party administrator fee	-	440,479	440,479	514,492
Investment management and custodial fees	309,083	-	309,083	229,812
Medical supplies	-	101	101	246,681
Total expenditures	<u>9,340,144</u>	<u>4,725,114</u>	<u>14,065,258</u>	<u>14,884,921</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,571,688)</u>	<u>1,629,130</u>	<u>(2,942,558)</u>	<u>6,945,089</u>
Other financing sources (uses):				
Operating transfers in	-	1,805,029	1,805,029	-
Operating transfers out	-	-	-	(1,791,076)
Total other financing sources (uses)	<u>-</u>	<u>1,805,029</u>	<u>1,805,029</u>	<u>(1,791,076)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(4,571,688)</u>	<u>3,434,159</u>	<u>(1,137,529)</u>	<u>5,154,013</u>
Fund balances (deficit) at beginning of year	<u>39,605,013</u>	<u>(3,918,624)</u>	<u>35,686,389</u>	<u>30,532,376</u>
Fund balances (deficit) at end of year	<u>\$ 35,033,325</u>	<u>\$ (484,465)</u>	<u>\$ 34,548,860</u>	<u>\$ 35,686,389</u>

See Accompanying Independent Auditors' Report.