

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

**MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION**

Years Ended September 30, 2008 and 2007
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Social Security Administration:

We have audited the accompanying statements of net assets of the Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of the Marshall Islands, as of September 30, 2008 and 2007, and the related statements of changes in net assets for the years 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 audits.

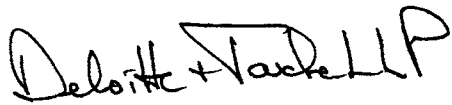
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, such financial statements present fairly, in all material respects, the financial status of MISSA as of September 30, 2008 and 2007, and the changes in financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of MISSA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of MISSA taken as a whole. The accompanying Combining Schedule of Net Assets (page 20) and Combining Schedule of Changes in Net Assets (page 21) as of and for the year ended September 30, 2008 are presented for purposes of additional analysis and are not a required part of the basic financial statements of MISSA. These schedules are the responsibility of MISSA's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements as of September 30, 2008 and for the year then ended and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2009, on our consideration of MISSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

January 15, 2009

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2008

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, 2008 and 2007. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, we encourage the readers to consider it in conjunction with the audited financial statements, which follow this section.

REQUIRED FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF MISSA

The Statements of Net Assets on page 8 and the Statements of Changes in Net Assets on page 9 provide an indication of MISSA's financial condition. An increase in net assets over time typically indicates an improvement in financial condition. While these statements measure the value of MISSA's net assets and the changes to them, another important factor to consider in determining the financial health of MISSA is its actuarial funded status.

Fiscal year 2008 has been a challenging year for MISSA as it posted a decrease in net assets of \$5,841,541 which is 174.43 % lower than in fiscal year 2007. This is mainly due to the decline in the fair market value of MISSA's offshore investments. As a result, net investment loss amounted to \$6,606,530 in fiscal year 2008, a 186.61% negative turnaround from the \$7,627,583 investment income earned in fiscal year 2007. On the other hand, contributions increased by 7.7% from \$12,508,494 in fiscal year 2007 to \$13,471,032 in fiscal year 2008.

MISSA's total assets have grown steadily in the past few years until fiscal year 2007 largely due to the extraordinary performance of its investments and the aggressive implementation of tax collection and audit practices. However, the continual growth in benefit payments is a cause for great concern over the future sustainability of the system. This trend is further threatened by the constant introduction of proposed legislations that are detrimental to the financial viability of the Retirement Fund.

A ten year benefit-projection study released in January 2006 recommended a progressive increase in the Retirement Fund tax rate to as much as 9.1% in 2015 in order for MISSA to meet its benefit payment obligations at current levels. Likewise, the most recent actuarial valuation dated October 1, 2006 indicated an unfunded Actuarial Accrued Liability (AAL) of \$147 million or 71% at September 30, 2006. The Administration's AAL as of October 1, 2006 was \$208 million while the market value of its assets amounted to only \$61 million. To improve its funding status, MISSA has been encouraged by its actuary to work on increasing the funded AAL from 29% to 50% over the next ten years.

As of September 30, 2008, MISSA's total net assets held in reserve for future benefits have decreased to \$63,186,661.

MISSA has no debt and did not have material activity in its capital assets. Please refer to notes to the financial statements for additional information concerning these matters.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2008

A summary of MISSA's Statements of Net Assets as of September 30, 2008, 2007 and 2006 is presented below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,452,587	\$ 1,623,181	\$ 1,474,481
Time certificates of deposit	4,546,005	4,284,756	4,060,743
Receivables, net:			
Contributions	2,094,879	2,072,535	2,088,814
Other	1,238,517	216,606	90,373
Due from affiliates, net	676,873	362,321	546,809
Investments:			
Cash Management	87,906	67,157	112,795
Stocks	16,260,481	16,006,856	14,770,070
Mutual funds	37,668,345	44,826,098	38,623,258
Fixed assets, net	<u>80,197</u>	<u>83,454</u>	<u>104,279</u>
Total assets	<u>64,105,790</u>	<u>69,542,964</u>	<u>61,871,622</u>
<u>LIABILITIES</u>			
Accounts payable	100,500	115,748	99,600
Other liabilities and accruals	161,386	189,405	157,031
Due to affiliates	<u>657,243</u>	<u>209,609</u>	<u>435,672</u>
Total liabilities	<u>919,129</u>	<u>514,762</u>	<u>692,303</u>
<u>NET ASSETS</u>			
Held in trust for future benefits	<u>\$ 63,186,661</u>	<u>\$ 69,028,202</u>	<u>\$ 61,179,319</u>

A summary of MISSA's Statements of Changes in Net Assets for the years ended September 30, 2008, 2007 and 2006 is presented below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Additions:			
Contributions	\$ 13,471,032	\$ 12,508,494	\$ 11,443,526
Net investment income (losses)	(6,606,530)	7,627,583	5,371,742
Other	<u>859,042</u>	<u>349,063</u>	<u>409,031</u>
Total additions	<u>7,723,544</u>	<u>20,485,140</u>	<u>17,224,299</u>
Deductions:			
Benefit payments	12,548,715	11,653,271	11,018,951
Administrative	<u>1,016,370</u>	<u>982,986</u>	<u>896,473</u>
Total deductions	<u>13,565,085</u>	<u>12,636,257</u>	<u>11,915,424</u>
Change in net assets	<u>\$ (5,841,541)</u>	<u>\$ 7,848,883</u>	<u>\$ 5,308,875</u>

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2008

Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in MISSA's report on the audit of financial statements, which is dated March 14, 2008. That Discussion and Analysis explains the major factors impacting the fiscal year 2007 financial statements and can be obtained from MISSA's Administrator via the contact information on page 7.

Additions:

MISSA's extensive collection efforts, more particularly the legal actions taken against long-outstanding delinquent employers, have paid off in fiscal year 2008 as it posted an increase in contributions of 7.7% from \$12,508,494 in fiscal year 2007 to \$13,471,032 in fiscal year 2008. The increase in contributions for fiscal year 2008 of 7.7% is primarily due to the 7.53% increase in contributions by the private sector, from \$8,118,383 in fiscal year 2007 to \$8,729,978 in fiscal year 2008. Further, the RMI Government, through the Ministry of Finance, continues to pay on time its bi-weekly remittances, although it declined by 4.59% from last fiscal year. Other Income has increased by 146.10% from \$349,063 in fiscal year 2007 to \$859,042 in fiscal year 2008. This is due to the collection of delinquent receivables in prior years.

The following table presents MISSA's investment allocations as of September 30, 2008 with comparative figures in 2007.

Investment Type	As of September 30, 2008				As of September 30, 2007			
	Weight	Target	Market Value (\$'000)	Target Value (\$'000)	Weight	Target	Market Value (\$'000)	Target Value (\$'000)
Small Cap	5.4%	4.8%	\$ 2,501	\$ 2,223	5.0%	4.8%	\$ 2,685	\$ 2,589
Small Cap Value	8.0%	7.2%	\$ 3,692	\$ 3,335	7.1%	7.2%	\$ 3,812	\$ 3,884
Large Cap	4.9%	4.8%	\$ 2,270	\$ 2,223	5.4%	4.8%	\$ 2,913	\$ 2,590
Large Cap Value	7.4%	7.2%	\$ 3,426	\$ 3,335	7.8%	7.2%	\$ 4,226	\$ 3,884
Int'l Small Cap	4.1%	4.5%	\$ 1,869	\$ 2,084	5.1%	4.8%	\$ 2,771	\$ 2,590
Int'l Small Cap Value	4.9%	5.4%	\$ 2,290	\$ 2,501	6.3%	6.0%	\$ 3,421	\$ 3,237
Int'l Large Cap	4.4%	4.5%	\$ 2,054	\$ 2,084	5.4%	4.8%	\$ 2,886	\$ 2,590
Int'l Large Cap Value	5.0%	5.4%	\$ 2,310	\$ 2,501	6.7%	6.0%	\$ 3,589	\$ 3,237
Emerging Markets	3.6%	4.2%	\$ 1,684	\$ 1,945	4.0%	2.4%	\$ 2,130	\$ 1,295
Domestic Real Estate	5.4%	4.5%	\$ 2,506	\$ 2,084	6.0%	6.0%	\$ 3,258	\$ 3,237
International Real Estate	4.2%	4.5%	\$ 1,932	\$ 2,084	0.0%	0.0%	\$ 0	\$ 0
Commodities	3.7%	3.0%	\$ 1,727	\$ 1,389	5.2%	6.0%	\$ 2,823	\$ 3,237
Bonds	38.8%	39.75%	\$ 17,964	\$ 18,409	35.9%	39.5%	\$ 19,369	\$ 21,310
Cash and Equivalents	0.2%	0.25%	\$ 88	\$ 116	0.1%	0.5%	\$ 67	\$ 270
TOTAL	100%	100%	\$ 46,313	\$ 46,313	100%	100%	\$ 53,950	\$ 53,950

The above allocations are based on the revised investment policy statement adopted by the Board of Directors on November 26, 2007 wherein MISSA's total investment portfolio requires an allocation of 60% for equities and 40% for bonds. With the exception of MISSA's investment in the Bank of the Marshall Islands (BOMI), 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, 2008, the fair market value of MISSA's investments in the U.S. and International markets decreased by \$7,636,955. A total of \$1,743,933 in dividends and interest payments were received and subsequently reinvested. Investment management fees have decreased by 5% from \$132,299 in 2007 to \$125,497 in 2008.

MISSA presently holds a 31% interest in BOMI. For the year ended September 30, 2008, MISSA's 65,285 shares at BOMI increased in value by \$1,047,358 representing equity earnings. Annual dividend payments of \$293,783 and \$261,140 were received from BOMI in April 2008 and 2007, respectively.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis Year Ended September 30, 2008

As of September 30, 2008 and 2007, the shares at BOMI were valued at \$7,673,887 and \$6,920,311, respectively. Further, MISSA holds 3,000 shares of stocks at \$10.00 par value from the Marshall Islands Service Corporation.

Deductions:

Deductions represent benefit payments and administrative expenses. For the year ended September 30, 2008, total deductions amounted to \$13,565,085, which is 7.35% higher than the \$12,636,257 paid in the previous year. Due to the implementation of various restrictions and controls on eligibility, benefit payments for fiscal year 2008 increased steadily by 7.68% or a total of \$12,548,715, as compared to \$11,653,271 paid in fiscal year 2007. Administrative expenses were maintained within the budgetary limits. For the years ended September 30, 2008 and 2007, MISSA's administrative expenses totaled \$1,016,370 and \$982,986, respectively. These amounts represent 8% of total contributions generated during these respective years. As mandated by the Social Security Act of 1990, MISSA's administrative expenses have an allowable ceiling of as much as 20% of total revenues for any given year.

FUTURE OUTLOOK ON SUSTAINABILITY

Looking back into fiscal year 2008, the Administration saw the worst months in recent financial history. The world market dipped into a steep plunge that created a global panic. Like any other investor, MISSA was not spared as its \$53.95 million offshore investments at the beginning of the fiscal year dropped to \$46.31 million as of September 30, 2008.

Although the current global system is highly vulnerable and uncertain at the moment, MISSA's investment portfolio is designed to ride out market volatility and market cycles. It is prudent, widely diversified and divided into 12 separate asset classes to reduce risk while achieving global market returns. MISSA believes that it has more than adequate time for its investment portfolio to recover. Aside from routine rebalancing, the Administration anticipates no changes in its investment program and strategies in the new fiscal year.

MISSA has a healthy, cash-rich balance sheet at the end of fiscal year 2008. Of its \$46.31 million offshore investments, about \$17.96 million represent short-term, high quality bond portfolio which is a near cash equivalent. In addition, MISSA has Certificates of Deposit (CD) balances with BOMI of \$4.55 million which earn interest at 5% per annum.

MISSA's local investments continue to grow as interest from CDs and equity earnings from BOMI were earned in fiscal year 2008. At least another \$1.3 million is expected to be earned in the coming fiscal year.

Despite the reduction by 186 in the number of workers reported by Kwajalein employers, MISSA was able to maintain a positive cash flow in fiscal year 2008. The RMI Government, Kwajalein Range Services, LLC and Chugach Development Corporation - the two main employers at United States Army Kwajalein Atoll (USAKA), and several big employers on Majuro who have consistently paid their contributions on time in the past, are expected to be the same revenue driving forces in the coming fiscal year. The Majuro Atoll Local Government (MalGov) has also impacted positively on MISSA's collections as it paid a total of \$1.1 million since January 2008. With a new payment plan in place, another \$1.1 million is expected to be paid by MalGov in fiscal year 2009. A third of this amount comprised of Health Fund contributions, which are remitted to the Ministry of Health.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Management's Discussion and Analysis
Year Ended September 30, 2008

Despite such cash reserves, MISSA is continually in search for ways to increase collections and cut on costs and expenses. As in the past years, the Administration will continue its aggressive collection campaign through house-to-house visits, payroll audits and legal actions. It also aims to maintain benefit payments and administrative expenses at sparing levels by introducing stiffer restrictions on eligibility requirements and more cost control programs.

The new fiscal year is expected to be the most challenging year for the Administration. The financial crisis that started as early as late 2007 in the U.S. and the unprecedented increases in world oil prices in mid-2008 created a domino effect worldwide. As a result, the inevitable happened - recession. It brought tremendous financial chaos to the U.S. and certain countries in Europe and in Asia. Consequently, the RMI's economy reacted accordingly and is expected to continue to struggle with difficulty in the coming year.

Although shipments of goods from overseas continue to flow in on time, consumers are still faced with spiraling price increases on basic commodities. As inflation continues to reach unparalleled heights, the economic condition in the country is further aggravated by the increasing level of unemployment. Thus, the purchasing power of consumers will proportionately decrease. Relatively, it will translate to lower revenues for businesses and self-employed individuals, and will be further worsened by stiff competition among them. All of these factors will seriously impact the private sector's capacity to pay present and future taxes and social security contributions on time.

Now, MISSA finds it increasingly more difficult to deal with long-outstanding delinquencies by businesses and certain government agencies in financial distress. Many of such employers have been prosecuted and ordered by the court to pay but to no avail.

Another difficult challenge that the Administration continually faces is the constant introduction by certain lawmakers of legislation that, if passed into law, would be detrimental to the financial viability of the Retirement Fund. Fortunately, the majority of the Country's legislators support and believe in MISSA's stand that the present financial position of the Retirement Fund is not yet ready to support any benefit increases.

With all of the above in mind, coupled with the fact that MISSA does not have any significant short-term liabilities to pay, the Administration firmly believes that benefit payments, expected to increase by about 8%, and administrative expenses will be sustained by contributions and investment income (dividends and interest) in the coming fiscal year without making any drawdown from its investments.

Lastly, the Administration continues to earn the support of the President of the Marshall Islands, his Cabinet, the Nitijela, employers and the general public. The Board Members remain diligent and prudent in their roles as fiduciaries of the Retirement Fund while MISSA management and staff continue to remain efficient in their respective duties and responsibilities. These factors have been the main reasons why MISSA had its successes in the new millennium.

CONTACTING MISSA'S FINANCIAL MANAGEMENT

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Statements of Net Assets
September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,452,587	\$ 1,623,181
Time certificates of deposit	<u>4,546,005</u>	<u>4,284,756</u>
Receivables, net:		
Contributions	2,094,879	2,072,535
Other	<u>1,238,517</u>	<u>216,606</u>
Total receivables, net	<u>3,333,396</u>	<u>2,289,141</u>
Due from affiliates, net	<u>676,873</u>	<u>362,321</u>
Investments:		
Cash management	87,906	67,157
Stocks	16,260,481	16,006,856
Mutual funds	<u>37,668,345</u>	<u>44,826,098</u>
Total investments	<u>54,016,732</u>	<u>60,900,111</u>
Fixed assets, net	<u>80,197</u>	<u>83,454</u>
Total assets	<u>64,105,790</u>	<u>69,542,964</u>
<u>LIABILITIES</u>		
Accounts payable	100,500	115,748
Other liabilities and accruals	161,386	189,405
Due to the Ministry of Health	<u>657,243</u>	<u>209,609</u>
Total liabilities	<u>919,129</u>	<u>514,762</u>
Commitments and Contingencies		
<u>NET ASSETS</u>		
Held in trust for retirement, disability and survivors' benefits	<u>\$ 63,186,661</u>	<u>\$ 69,028,202</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Statements of Changes in Net Assets Years Ended September 30, 2008 and 2007

	2008	2007
Additions:		
Contributions:		
Private employees	\$ 8,729,978	\$ 8,118,383
Government employees	3,824,273	4,008,304
Penalties and interest	916,781	381,807
Total contributions	13,471,032	12,508,494
Investment income (losses):		
Net change in the fair value of investments	(8,503,259)	5,883,151
Dividends	1,742,497	1,597,340
Interest	279,729	279,391
Total investment income (losses)	(6,481,033)	7,759,882
Less investment expense:		
Investment management and custodial fees	125,497	132,299
Net investment income (losses)	(6,606,530)	7,627,583
Other	859,042	349,063
Total additions	7,723,544	20,485,140
Deductions:		
Benefit payments:		
Retirement	7,085,995	6,425,859
Survivors	4,332,029	3,991,285
Disability	1,054,194	1,172,627
Lump sum	76,497	63,500
Total benefit payments	12,548,715	11,653,271
Administrative	1,016,370	982,986
Total deductions	13,565,085	12,636,257
Change in net assets	(5,841,541)	7,848,883
Net assets at beginning of year	69,028,202	61,179,319
Net assets at end of year	\$ 63,186,661	\$ 69,028,202

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2008 and 2007

(1) Organization

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

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

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

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

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

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

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

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies

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

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

A. Basis of Accounting

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

B. Future Liabilities and Contributions

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

C. Cash and Cash Equivalents and Time Certificates of Deposit

For the purposes of the statements of net assets, 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 on the statements of net assets.

D. Investments

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

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

E. Receivables and the Allowance for Doubtful Accounts

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

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

F. Fixed Assets

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

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

G. Compensated Absences

Annual vacation leave is earned by all permanent employees and accumulates at the rate of one working day per bi-weekly pay period. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At September 30, 2008 and 2007, a liability existed for accumulated annual leave calculated at the employee's September 30, 2007 pay rate in the amount of \$30,008 and \$29,648, respectively, and is included in the statements of net assets within other liabilities and accruals. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2008 and 2007 is \$14,091 and \$22,293, respectively.

H. New Accounting Standards

During fiscal year 2008, MISSA implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISSA.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

I. Estimates

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

(3) Prior Service Benefits Program

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

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

MISSA assumed administrative functions and received an allocation of \$115,896 and \$106,491 from PSTFA in 2008 and 2007, respectively. Total benefits expenditures for the years ended September 30, 2008 and 2007 amounted to \$105,102 and \$110,877, respectively. However, while MISSA accepts the liability for any amounts received, MISSA does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. At September 30, 2008, no amount is available for future benefit payments under the Prior Service Benefits Program.

(4) Deposits and Investments

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

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2008 and 2007

(4) Deposits and Investments, Continued

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

A. Deposits:

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

- Category 1 Deposits that are federally insured or collateralized with securities held by MISSA or its agent in the MISSA's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in MISSA's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in MISSA's name and non-collateralized deposits.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2008 and 2007

(4) Deposits and Investments, Continued

A. Deposits, Continued:

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, MISSA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MISSA does not have a deposit policy for custodial credit risk.

As of September 30, 2008 and 2007, the carrying amount of MISSA's cash and cash equivalents and time certificates of deposit was \$5,998,592 and \$5,907,937, respectively, and the corresponding bank balances were \$6,420,679 and \$6,375,411, respectively. As of September 30, 2008 and 2007, bank deposits in the amount of \$115,767 and \$52,284, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. MISSA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments:

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

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

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

As of September 30, 2008 and 2007, investments at fair value are as follows:

	<u>2008</u>	<u>2007</u>
Mutual funds	\$ 37,668,345	\$ 44,826,098
Domestic equities	6,502,869	6,170,625
Foreign equities	2,053,725	2,885,920
Cash management funds	<u>87,906</u>	<u>67,157</u>
	<u>\$ 46,312,845</u>	<u>\$ 53,949,800</u>

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2008 and 2007

(4) Deposits and Investments, Continued

B. Investments, Continued:

Additionally, MISSA owns 65,285 shares of the common stock of the Bank of Marshall Islands (BOMI), which engages in commercial banking services in the Republic of the Marshall Islands, and 3,000 shares of the common stock of Marshall Islands Service Corporation (MISC), which shareholders are comprised primarily of BOMI shareholders. The investment in BOMI is accounted for on the equity method since the investment constitutes a 31% ownership share. At September 30, 2008 and 2007, MISSA's investment in BOMI amounted to \$7,673,887 and \$6,920,311, respectively. The investment in MISC is accounted for at cost since the fair market value is not readily available. At September 30, 2008 and 2007, MISSA's investment in MISC amounted to \$30,000.

As of September 30, 2008 and 2007, MISSA maintained bank deposits and a time certificate of deposit with BOMI totaling \$6,304,912 and \$6,323,127, respectively.

A summary of unaudited financial information as of and for the nine months ended September 30, 2008, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>60,117,844</u>
Liabilities	\$ <u>36,126,520</u>
Net earnings	\$ <u>2,554,362</u>

As of September 30, 2008 and 2007, net increase in fair value of investments included equity in net earnings of BOMI amounting to \$1,047,358 and \$905,988, respectively.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At September 30, 2008 and 2007, 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. Except for mutual funds, MISSA's agent holds investment securities in MISSA's name. MISSA's agent 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, 2008 and 2007.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2008 and 2007

(4) Deposits and Investments, Continued

B. Investments, Continued:

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, 2008 and 2007, 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, 2008 and 2007, including applicable allowances for doubtful accounts, are as follows:

	<u>2008</u>	<u>2007</u>
Contributions	\$ 2,094,879	\$ 2,072,535
Other	<u>4,629,595</u>	<u>4,366,824</u>
	6,724,474	6,439,359
Less allowance for doubtful accounts	<u>(3,391,078)</u>	<u>(4,150,218)</u>
	<u>\$ 3,333,396</u>	<u>\$ 2,289,141</u>

(6) Due from Affiliates

Receivables from affiliates as of September 30, 2008 and 2007, including applicable allowances for doubtful accounts, are as follows:

	<u>2008</u>	<u>2007</u>
Ministry of Health	\$ 37,964	\$ 277,964
Other	<u>836,283</u>	<u>220,109</u>
	874,247	498,073
Less allowance for doubtful accounts	<u>(197,374)</u>	<u>(135,752)</u>
	<u>\$ 676,873</u>	<u>\$ 362,321</u>

On November 4, 2003, MISSA entered into a debt reduction agreement with the Ministry of Health (MOH) for the repayment of certain receivables in the amount of \$1,177,964. Under the terms of this agreement, MOH is required to make interest-free quarterly payments of \$60,000, commencing on January 1, 2004.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Notes to Financial Statements
September 30, 2008 and 2007

(7) Capital Assets

Capital asset activity for the years ended September 30, 2008 and 2007, was as follows:

	October 1, <u>2007</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2008</u>
Buildings and improvements	\$ 489,754	\$ 7,613	\$ -	\$ 497,637
Motor vehicles	95,304	17,495	(16,117)	96,682
Computer equipment	92,620	1,969	(2,895)	91,694
Furniture	54,432	1,592	(275)	55,749
Office equipment	<u>75,922</u>	<u>11,079</u>	<u>(967)</u>	<u>86,034</u>
	808,032	39,748	(20,254)	827,526
Less accumulated depreciation and amortization	<u>(724,578)</u>	<u>(43,005)</u>	<u>(20,254)</u>	<u>(747,329)</u>
	<u>\$ 83,454</u>	<u>\$ (3,257)</u>	<u>\$ -</u>	<u>\$ 80,197</u>
	October 1, <u>2006</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2007</u>
Buildings and improvements	\$ 484,854	\$ 4,900	\$ -	\$ 489,754
Motor vehicles	79,339	32,000	(16,035)	95,304
Computer equipment	90,522	12,528	(10,430)	92,620
Furniture	68,892	-	(14,460)	54,432
Office equipment	<u>73,876</u>	<u>13,374</u>	<u>(11,328)</u>	<u>75,922</u>
	797,483	62,802	(52,253)	808,032
Less accumulated depreciation and amortization	<u>(693,204)</u>	<u>(83,706)</u>	<u>52,332</u>	<u>(724,578)</u>
	<u>\$ 104,279</u>	<u>\$ (20,904)</u>	<u>\$ 79</u>	<u>\$ 83,454</u>

(8) Contingency

In September 2007, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2006. The valuation reported actuarial accrued liabilities for the Retirement Fund of \$207,653,000. As of September 30, 2008, MISSA recorded total fund equity of \$63,194,743 in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that MISSA may be unable to meet its future benefit obligations.

(9) Risk Management

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

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combining Schedule of Net Assets
September 30, 2008

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total Before Elimination</u>	<u>Elimination</u>	<u>Total</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,402,189	\$ 50,398	\$ 1,452,587	\$ -	\$ 1,452,587
Time certificates of deposit	4,546,005	-	\$ 4,546,005	-	4,546,005
Receivables, net:					
Contributions	2,094,879	-	2,094,879	-	2,094,879
Other	1,238,517	-	1,238,517	-	1,238,517
Total receivables, net	3,333,396	-	3,333,396	-	3,333,396
Due from affiliates, net	726,869	27	726,896	(50,023)	676,873
Investments:					
Cash management	87,906	-	87,906	-	87,906
Stocks	16,260,481	-	16,260,481	-	16,260,481
Mutual funds	37,668,345	-	37,668,345	-	37,668,345
Total investments	54,016,732	-	54,016,732	-	54,016,732
Fixed assets, net	80,197	-	80,197	-	80,197
Total assets	64,105,388	50,425	64,155,813	(50,023)	64,105,790
<u>LIABILITIES</u>					
Accounts payable	100,500	-	100,500	-	100,500
Other liabilities and accruals	152,902	58,507	211,409	(50,023)	161,386
Due to the Ministry of Health	657,243	-	657,243	-	657,243
Total liabilities	910,645	58,507	969,152	(50,023)	919,129
<u>NET ASSETS</u>					
Held in trust for retirement, disability and survivors' benefits	\$ 63,194,743	\$ (8,082)	\$ 63,186,661	\$ -	\$ 63,186,661

See Accompanying Independent Auditors' Report.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Combining Schedule of Changes in Net Assets
Year Ended September 30, 2008

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total Before Elimination</u>	<u>Elimination</u>	<u>Total</u>
Additions:					
Contributions:					
Private employees	\$ 8,729,978	\$ -	\$ 8,729,978	\$ -	\$ 8,729,978
Government employees	3,824,273	-	3,824,273	-	3,824,273
Penalties and interest	916,781	-	916,781	-	916,781
Total contributions	<u>13,471,032</u>	<u>-</u>	<u>13,471,032</u>	<u>-</u>	<u>13,471,032</u>
Investment income (losses):					
Net change in the fair value of investments	(8,503,259)	-	(8,503,259)	-	(8,503,259)
Dividends	1,742,497	-	1,742,497	-	1,742,497
Interest	279,729	-	279,729	-	279,729
Total investment losses	(6,481,033)	-	(6,481,033)	-	(6,481,033)
Add investment expense:					
Investment management and custodial fees	125,497	-	125,497	-	125,497
Net investment losses	<u>(6,606,530)</u>	<u>-</u>	<u>(6,606,530)</u>	<u>-</u>	<u>(6,606,530)</u>
Other	756,291	115,896	872,187	(13,145)	859,042
Total additions	<u>7,620,793</u>	<u>115,896</u>	<u>7,736,689</u>	<u>(13,145)</u>	<u>7,723,544</u>
Deductions:					
Benefit payments:					
Retirement	7,027,740	58,255	7,085,995	-	7,085,995
Survivors	4,285,182	46,847	4,332,029	-	4,332,029
Disability	1,054,194	-	1,054,194	-	1,054,194
Lump sum	76,497	-	76,497	-	76,497
Total benefit payments	12,443,613	105,102	12,548,715	-	12,548,715
Administrative	1,016,370	13,145	1,029,515	(13,145)	1,016,370
Total deductions	<u>13,459,983</u>	<u>118,247</u>	<u>13,578,230</u>	<u>(13,145)</u>	<u>13,565,085</u>
Change in net assets	(5,839,190)	(2,351)	(5,841,541)	-	(5,841,541)
Net assets at beginning of year	69,033,933	(5,731)	69,028,202	-	69,028,202
Net assets at end of year	<u>\$ 63,194,743</u>	<u>\$ (8,082)</u>	<u>\$ 63,186,661</u>	<u>\$ -</u>	<u>\$ 63,186,661</u>

See Accompanying Independent Auditors' Report.

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

Board of Directors
Marshall Islands Social Security Administration:

We have audited the financial statements of the Marshall Islands Social Security Administration (MISSA) as of and for the year ended September 30, 2008, and have issued our report thereon dated January 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

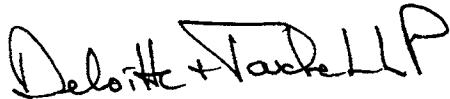
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

Compliance and Other Matters

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

We noted certain matters that we reported to management of MISSA in a separate letter dated January 15, 2009.

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

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

January 15, 2009

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Unresolved Prior Year Findings
Year Ended September 30, 2008

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