MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION

(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

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

Years Ended September 30, 2019 and 2018
Table of Contents

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Social Security Administration:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of the Marshall Islands, which comprise the statements of fiduciary net position as of September 30, 2019 and 2018, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Deloitte.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MISSA as of September 30, 2019 and 2018, and the changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

Uncertainty Regarding Funded Ratio

As discussed in Note 9 to the financial statements, MISSA may be unable to meet its future benefit obligations.

COVID-19

As discussed in Note 11 to the financial statements, MISSA determined that the COVID-19 pandemic may negatively impact its investments and changes in net position available for benefits. MISSA is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information on pages 25 and 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Deloitte.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2020 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 solely 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 effectiveness of MISSA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MISSA's internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 16, 2020

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, 2019 and 2018. 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 fiduciary component unit of the Republic of the Marshall Islands (RepMar), prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Statements of Fiduciary Net Position reflect all of MISSA's assets and liabilities and provide information on the nature and amount of investments available to ensure payment of retirement, survivor, disability and lump sum benefits. All additions to and deductions from the net position held in trust for retirement, disability, survivor and lump sum benefits are accounted for in the Statements of Changes in Fiduciary Net Position. This statement measures MISSA's performance over the past year in increasing or decreasing the net position available for future benefits.

FINANCIAL ANALYSIS OF MISSA

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

Two years after the reform law was passed, MISSA's cash flow continued to improve and remain positive. In May 2019, MISSA had accumulated a sizeable amount of cash surplus from which it set aside a $2 million TCD in a local bank. Another $2 million was infused to build up MISSA's investments outside the country, which were seriously depleted by constant withdrawals that totaled more than $22 million from 2010 through 2016.

MISSA's continuous aggressive collection campaign, which included payroll audits, paid off as contributions increased from $20.4 million in FY 2018 to $21 million in FY 2019, reflecting a 2.6% increase. Prior to the new MISSA law, contributions amounted to $15.2 million in FY 2016. Likewise, benefits were controlled at sparing levels. The $20.8 million benefits paid in FY 2019 remain almost unchanged when compared to the $20.7 million paid in the previous year. Before the new MISSA law took effect, benefits used to increase at an average of 6%-7% or around $1 million every year.

MISSA's financial turnaround would not have been made possible without the support and financial assistance from the RMI Government, which appropriated $3.3 million, $3 million and $2.3 million in FYs 2017, 2018 and 2019, respectively, to the Administration. Just recently, another $1.7 million in subsidy was granted to MISSA for FY 2020, in which $100,000 has been transferred to the RMI Health Fund, as MISSA had requested for $1.6 million.

At September 30, 2019, MISSA's total fiduciary net position held in reserve for future benefits amounted to $83.2 million. MISSA has no debt and did not have material activity in its capital assets. Please refer to notes to financial statements for additional information concerning these matters.

A summary of MISSA's Statements of Fiduciary Net Position as of September 30, 2019, 2018 and 2017 is presented below:

	2019	2018	2017
ASSETS			
Cash and cash equivalents	$ 1,595,599	$ 3,615,309	$ 1,363,901
Time certificate of deposit	2,000,000	-	-
Receivables, net	3,774,375	3,853,707	3,739,566
Investments:			
Cash management	59,616	252,535	76,368
Stocks	31,412,476	26,857,112	23,217,668
Mutual funds	46,000,543	46,688,465	46,275,398
Fixed assets, net	155,179	120,059	40,185
Total assets	84,997,788	81,387,187	74,713,086
LIABILITIES			
Accounts payable	63,641	131,645	135,200
Other liabilities and accruals	115,630	76,592	70,876
Due to affiliates	1,664,543	1,913,506	1,792,429
Total liabilities	1,843,814	2,121,743	1,998,505
NET POSITION			
Held in trust for future benefits	$83,153,974	$79,265,444	$72,714,581

A summary of MISSA's Statements of Changes in Fiduciary Net Position for the years ended September 30, 2019, 2018 and 2017 is presented below:

	2019	2018	2017
Additions:			
Contributions	$20,951,525	$20,419,514	$18,333,207
Net investment income	2,205,853	4,729,953	7,211,662
RMI Subsidy	2,314,747	2,976,000	3,273,600
Other	357,788	226,975	433,646
Total additions	25,829,913	28,352,442	29,252,115
Deductions:			
Benefit payments	20,835,292	20,734,016	21,189,518
Administrative	1,106,091	1,067,563	957,084
Total deductions	21,941,383	21,801,579	22,146,602
Change in net position	$ 3,888,530	$ 6,550,863	$ 7,105,513

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in MISSA's report on the audit of its financial statements dated January 21, 2019. Such Management Discussion and Analysis explains the major factors impacting the fiscal year 2018 financial statements and can be obtained from MISSA's Administrator via the contact information on page 9.

Additions:

As in previous years, the RMI Government has consistently paid its bi-weekly remittances on time, which comprised 31.5% of total contributions. The continual aggressive collection efforts by MISSA's Tax Compliance Officers and Auditors coupled with relentless legal referrals and court actions contributed to the increase in contributions from $20.4 million in FY 2018 to $21 million in FY 2019.

The following table presents MISSA's investment allocations as of September 30, 2019 with comparative figures in 2018.

	As of September 30, 2019				As of September 30, 2018			
Investment Type	**Weight**	**Target**	**Market Value ($'000)**	**Target Value ($'000)**	**Weight**	**Target**	**Market Value ($'000)**	**Target Value ($'000)**
Small Cap	5.02%	4.80%	2,898	2,771	4.80%	5.80%	2,682	3,241
Small Cap Value	6.28%	5.40%	3,623	3,116	7.50%	8.18%	4,190	4,570
Large Cap Growth	6.04%	6.00%	3,488	3,462	5.10%	5.36%	2,849	2,995
Large Cap	7.79%	7.80%	4,474	4,500	6.60%	6.79%	3,688	3,794
Large Cap Value	9.06%	8.40%	5,231	4,847	8.40%	9.25%	4,693	5,168
Int'l Small Cap	3.67%	3.60%	2,121	2,077	4.20%	4.15%	2,347	2,319
Int'l Small Cap Value	3.69%	3.60%	2,131	2,077	4.20%	4.14%	2,347	2,313
Int'l Large Cap	4.86%	4.80%	2,804	2,771	4.80%	4.72%	2,682	2,637
Int'l Large Cap Value	5.54%	6.00%	3,198	3,462	4.80%	4.78%	2,682	2,671
Emerging Markets	4.24%	4.20%	2,447	2,423	4.20%	4.24%	2,347	2,369
Domestic Real Estate	3.61%	3.00%	2,085	1,731	3.00%	3.11%	1,676	1,738
International Real Estate	2.67%	2.40%	1,540	1,385	2.40%	2.46%	1,341	1,374
Bonds	37.47%	40.00%	21,628	23,080	40.00%	36.61%	22,349	20,455
Cash and Equivalents	0.06%	0.00%	34	0	0.00%	0.41%	0	229
TOTAL	**100%**	**100%**	**$57,702**	**$57,702**	**100%**	**100%**	**$55,873**	**$55,873**

The above allocations are based on the current investment policy statement adopted by the Board of Directors on August 18, 2016 wherein MISSA's total investment portfolio requires an allocation of 60% for equities and 40% for bonds. As reported by MISSA's investment advisor, "year-to-date returns are particularly gratifying. Every single equity class is strongly positive."

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

For the year ended September 30, 2019, the fair market value of MISSA's investments in the U.S. and international markets increased by $1.8 million and totaled $57.7 million due to the positive performance of all asset classes in MISSA's portfolio. Having maintained a positive cash flow, no investment drawdown was made in FY 2019. A total of $2.3 million in dividends and interest payments were received and subsequently reinvested. Investment management fees have decreased by $304 from $136,555 in 2018 to $136,251 in 2019.

MISSA presently holds a 36% interest in MIHI, a local holding company incorporated on February 27, 2013. On October 31, 2013, MIHI acquired all of the outstanding common stock of Bank of the Marshall Islands (BOMI). Prior to MIHI's acquisition of BOMI, MISSA owned 65,417 shares of BOMI stock valued at $10,959,846. Between 2014 and 2017, MISSA received an additional 392 shares from MIHI, increasing the Administration's stockholding to 65,809 shares. In 2018, MISSA received an additional 100 shares from MIHI and exchanged 3,334 MIHI shares at $150 per share for 38,469 MISCo shares at $13 per share. This reduced the Administration's stockholding with MIHI to 62,575 shares. In 2019, MISSA received 75 additional shares from MIHI and exchanged 2,500 MIHI shares at $200 per share for 38,461 MISCo shares at $13 per share. This reduced the Administration's stockholding with MIHI to 60,150 shares.

On November 10, 2017, the Board approved the transfer of $1 million from MISSA's investment in MIHI to MISCo, or the equivalent of 76,925 MISCo shares at $13 per share. The transfer was made in two installments: the first was made on December 22, 2017 and the second, on December 19, 2018.

At September 30, 2019, MISSA's investment in MIHI increased by $1.4 million representing BOMI's fiscal year equity earnings less dividends received and value of sold shares. Annual dividend payments of $500,133 and $493,099 were received from MIHI in December 2018 for calendar year 2018 and in December 2017 for calendar year 2017, respectively. At September 30, 2019 and 2018, the investment in MIHI amounted to $18.7 million and $17.4 million, respectively. Likewise, MISSA holds 80,080 shares of MISCo common stock with a current market value of $1 million.

Deductions:

Deductions represent benefit payments and administrative expenses. For the year ended September 30, 2019, total deductions amounted to $21.9 million, which is slightly higher than the $21.8 million paid in the previous year. The minimal increase was due to the removal of early retirement, extension of normal retirement age and coverage of earnings test to age 65, which reduced significantly the entry of new retirees into the retirement program. Administrative expenses were maintained within the budgetary limit. For the years ended September 30, 2019 and 2018, MISSA's administrative expenses totaled $1,106,091 and $1,067,563 respectively. These amounts represent 5.3% and 5.2% of total contributions generated during these respective years. As mandated by the Social Security Act of 1990, MISSA's administrative expenses have an allowable ceiling of as much as 20% of total revenues for any given year.

FUTURE ECONOMIC OUTLOOK

For the first time in 10 years, contributions have surpassed benefits mainly due to the effects of the March 2017 MISSA reform law. From a low of $15.2 million in FY 2016, contributions in FY 2019 grew to $21 million, which is $116,000 higher than the $20.8 million benefits paid during the same period. However, this positive gap is expected to be reversed in the coming years. With limited employment opportunities in the country, contributions are projected to remain constant, or more likely, to drop due to the continual out-migration of local workers seeking better pay in the United States. Likewise, tax delinquency continues to be a difficult challenge for MISSA's Tax Compliance Team as millions of dollars owed by certain employers and businesses for years remain uncollected.

The removal of the early retirement age and extension of the normal retirement age from 60 years to 61 in March 2017 and then to 62 years effective January 1, 2019 significantly reduced the entry of new retirees into the system; thereby hundreds of thousands of dollars in benefits were saved by MISSA. However, with 25 new retirees and beneficiaries (on the average every month) joining the more than 4,600 recipients of the MISSA benefit program, benefit payments will soon surpass contributions. Consequently, this negative gap will continue to widen if the status quo remains unchanged and no new reforms to the present system are undertaken by MISSA and the Government to correct the deficit. The annual financial assistance that MISSA is receiving from the RMI Government will always remain as its lifeline in maintaining a positive cash flow without MISSA dipping again into its reserved funds.

The latest actuarial report received by MISSA showed that as of October 1, 2018, the Fund's accrued liability has ballooned to $428.7 million. One can think of the accrued liability as the amount needed today to pay for all benefits earned as of today that are either already paid or may be paid in the future. Deducting the market value of MISSA's assets of $79.3 million as of the same period from the accrued liability will result in an unfunded accrued liability of $349.4 million or a funded ratio of 18%. This simply means that MISSA can only afford to pay $0.18 for every dollar that is due to each beneficiary. The actuarial report also showed another grim scenario, that by 2025, assuming there is no increase in the number of active workers and no additional annual appropriations from the RMI Government, the funded status will only be around 2%, and by mid-2025, the Fund will be fully exhausted.

MISSA's local investments have consistently performed well in FY 2019 and are expected to remain lucrative in the succeeding years. On top of the 36% share from the net profit of a local bank that MISSA has a controlling interest in, the Administration also received a cash dividend of $500,133 in December 2018 for calendar year 2018. However, the world market remains volatile with regard to offshore investments. It is important to note that during the first quarter of FY 2019, the market value of MISSA's offshore investments decreased by $6.7 million. Fortunately, there was a 180 degree turnaround in the succeeding months. At the onset of the last quarter of FY 2019, the losses in the earlier months were fully recovered and further positive returns were gained that by the end of September 2019, net investment income totaled $1.5 million, inclusive of $2.3 million in dividends that were subsequently re-invested.

The implementation of the new law on taxi businesses that was passed in November 2018 remains a big challenge to our tax compliance team. As much as MISSA wants to generate additional revenues from this sector, the well-being of the taxi drivers will always remain a priority to MISSA. It is a fact that certain taxi operators have taken advantage of the dire need of taxi drivers to find a source of livelihood by charging onerous rental rates and imposing self-serving terms and conditions from the helpless drivers. To address these issue, "Taxi Regulations" have been designed by MISSA and will be presented to the Cabinet for approval. Upon approval, the new regulations will be enforced in accordance with procedures that are required by the RMI Administrative Act.

MISSA's aim to be compliant with fiduciary standards and practices has been reinforced again with further fiduciary training attended by the MISSA Board. As the members are now more equipped with fundamental knowledge of their duties and responsibilities as stewards of the Retirement Fund, they are better able to understand MISSA's investment activities and make sound decisions. An Investment Governance review was conducted last year by an independent consultant and, with his help, MISSA will undertake an RFP process, which may result in the retention of the current Investment Advisor but with significantly improved service and lower cost, or replacement with an alternative US based advisor experienced with board governance.

The result of the most recent election in the country has paved a way for the reorganization of the composition of the MISSA Board. MISSA remains hopeful that it will continue to receive the same strong support it received from previous Administrations. It is always the goal of MISSA to work closely with our legislators to continue to seek their support to search for long-term solutions and ensure that the Marshall Islands Retirement Fund remains viable and financially healthy through the years.

COVID-19

Before 2019 ended, the markets were trading at all-time highs that increased MISSA's investments by $3.103 million during the quarter ended December 31, 2019. However, the emergence of COVID-19 in early January 2020 seriously impacted the market. The brunt of the corona virus grew larger with each passing day, that by March 31, 2020, the gain was totally wiped out by a $10.563 million drop in the market value.

Expecting continual volatility in the world market, the MISSA Board, as advised by its investment advisor, kept calm and continued to stick with the current IPS of 60% equity and 40% fixed income portfolio. To improve and stabilize the asset allocation, the board deemed that it was wiser to buy equity with cheaper prices. Small cap exposures were reduced with corresponding increase in large cap values and MISSA repositioned on equities with very low rates. Fortunately, all fixed income assets yielded positive results, and with government stimulus package in place, the world market started to stabilize gradually. Subsequently, MISSA's investments bounced back with increases in market value of $3.339 million in April and another $1.501 million in May. As of May 31, 2020, the market value of MISSA's offshore investments stands at $55.083 million which is lower by just $2.620 million from its September 30, 2019 balance.

Since the pandemic has not yet reached the country, business in the RMI "remains as usual". MISSA was still able to meet its projected collections for the quarter ended March 31, 2020. But with international travel restrictions expected to drag for several months, a few private businesses, more particularly the hotel, tourism and airline sectors, are now faced with operational uncertainties. Albeit this particular segment of taxpayers may miss paying MISSA taxes in the next couple of quarters, their contribution is just a very small fraction of the total revenues that MISSA collects and will not have a significant impact on MISSA's cash flow.

In the event that the pandemic reaches the RMI and a business lockdown becomes imminent, MISSA remains confident that its cash flow will remain positive until the end of 2020 without making any investment drawdowns. So long as MISSA receives on time the Government's weekly remittances and quarterly subsidies, coupled with the $2.0 million TCD at a local bank that may be withdrawn any time, MISSA will still be able to pay, without interruptions, its more than 4,600 beneficiaries every month until business returns to normal.

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 saaneaho@rmimissa.org.

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

Statements of Fiduciary Net Position
September 30, 2019 and 2018

	2019	2018
ASSETS		
Cash	$ 1,595,599	$ 3,615,309
Receivables, net	3,774,375	3,853,707
Investments:		
Cash management	59,616	252,535
Time certificate of deposit	2,000,000	-
Stocks	19,770,132	17,925,111
Exchange traded funds	11,642,344	8,932,001
Mutual funds	46,000,543	46,688,465
Total investments	79,472,635	73,798,112
Capital assets, net	155,179	120,059
Total assets	84,997,788	81,387,187
LIABILITIES		
Accounts payable	63,641	131,645
Other liabilities and accruals	115,630	76,592
Due to affiliate	1,664,543	1,913,506
Total liabilities	1,843,814	2,121,743
Contingencies		
NET POSITION		
Held in trust for retirement, disability and survivors' benefits	$ 83,153,974	$ 79,265,444

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Additions:		
Contributions:		
Private employees	$ 13,403,279	$ 12,788,369
Government employees	6,608,620	6,542,417
Penalties and interest	796,180	1,088,728
Total contributions	20,808,079	20,419,514
Recovery of doubtful accounts	143,446	-
Net contributions income	20,951,525	20,419,514
Investment income:		
Net change in the fair value of investments	14,417	3,100,446
Dividends	2,316,894	1,758,480
Interest	10,793	7,582
Total investment income	2,342,104	4,866,508
Less investment expense:		
Investment management and custodial fees	136,251	136,555
Net investment income	2,205,853	4,729,953
Other additions	357,788	226,975
RepMar subsidy	2,314,747	2,976,000
Total additions	25,829,913	28,352,442
Deductions:		
Benefit payments:		
Retirement	12,677,932	12,782,236
Survivors	7,217,942	7,019,856
Disability	803,963	810,974
Lump sum	135,455	120,950
Total benefit payments	20,835,292	20,734,016
Administrative	1,106,091	1,067,563
Total deductions	21,941,383	21,801,579
Change in net position	3,888,530	6,550,863
Net position at beginning of year	79,265,444	72,714,581
Net position at end of year	$ 83,153,974	$ 79,265,444

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands Social Security Administration (MISSA), a fiduciary component unit of the Government of the Republic of the Marshall Islands (RepMar), was established pursuant to 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.

In 2016, the Cabinet of RepMar established a National Task Force to review the financial status of MISSA and to make recommendations for reform in order to prolong the longevity of the Retirement Fund. The Nitijela subsequently enacted Public Law 2016-26 (the Social Security (Amendment) Act 2016), which implemented reform measures as recommended by the Task Force with an effective date of January 1, 2017. The Nitijela further enacted Public Law 2017-29 (the Social Security (Amendment) Act 2017), which further enhanced the reform measures outlined in Public Law 2016-26 and deferred the effective date to March 6, 2017. On November 22, 2018, the Nitijela enacted Public Law 2018-98 (Social Security Amendment Act 2018), which amends certain sections of the Social Security Act to provide for: (i) cab drivers to be defined as employees subject to MISSA taxes and benefits; (ii) to increase the percentage of lump-sum payment for workers who do not have enough accrued quarters; and (iii) to provide options for non-citizens or nationals to claim lump-sum payment when they leave the Marshall Islands at the age of retirement.

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

(2) Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, establish financial reporting standards for governmental entities, which includes the requirement for MISSA to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the basic financial statements. In addition, these statements require that resources be classified for accounting and reporting purposes as held in trust for retirement, disability and survivors' benefits.

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

(2) Summary of Significant Accounting Policies, Continued

A. Basis of Accounting

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

B. Future Liabilities and Contributions

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

C. Cash and Time Certificates of Deposit

For the purposes of the statements of fiduciary net position, cash includes cash on hand and cash in checking and savings accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified.

D. Investments

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

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

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

E. Receivables and the Allowance for Doubtful Accounts

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

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

(2) Summary of Significant Accounting Policies, Continued

F. Fixed Assets

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

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

G. Deferred Outflows of Resources

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

H. Compensated Absences

Annual vacation leave is earned by all permanent employees and accumulates at the rate of one working day per bi-weekly pay period. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. As of September 30, 2019 and 2018, the accumulated annual leave liability amounted to $28,015 and $29,342, respectively, and is included in the statements of fiduciary net position within other liabilities and accruals.

No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2019 and 2018 is $19,449 and $17,322, respectively.

I. Deferred Inflows of Resources

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

J. Contributions

Contributions to the Retirement Fund are governed by the Social Security Act of 1990, as amended by the Social Security (Amendment) Act 2016, which imposes a tax on the quarterly income of every employee not currently subject to the United States Social Security System or any other recognized Social Security System. Employees are required to contribute an amount equal to 7% of wages received prior to March 6, 2017 and 8% thereafter. Every employer is required to contribute an amount equal to that contributed by employees.

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

(2) Summary of Significant Accounting Policies, Continued

K. Benefit Obligations

Retirement benefits are paid to every person who is a service insured or a fully insured individual as defined by the Social Security Act of 1990, as amended, has attained an age of 60 years prior to March 6, 2017 and has filed an application for old age insurance benefits. Thereafter, the old age insurance benefits has been redefined as follows: a fully insured worker who has attained an age of 61 years by March 6, 2017; 62 years by January 1, 2019; 63 years by January 1, 2021; 64 years by January 1, 2023; and 65 years by January 1, 2025 shall be entitled to old age insurance benefits. Effective March 6, 2017, new applications for early or deferred retirement benefits will no longer be allowed.

Benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements, as long as they do not remarry. Eligible children who are not married and are not working may also receive benefits until age eighteen (18) or up until age twenty-two (22), if in school. Eligible children who become disabled before age twenty-two will continue to receive benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability or until retirement or death, at which time retirement or survivor benefits become available.

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

a) Pension element - two percent of index covered earnings, plus;

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

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

Effective March 6, 2017, Public Law 2017-29 enacted MISSA to enforce a decrease in monthly benefit payments, which was to be phased in over a period of three years as follows:

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

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

L. Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation.

(2) Summary of Significant Accounting Policies, Continued

M. New Accounting Standards

During the year ended September 30, 2019, MISSA implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on MISSA's financial statements.

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

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61,* which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

M. New Accounting Standards, Continued

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

N. Estimates

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

(3) Prior Service Benefits Program

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

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

MISSA assumed administrative functions and for the years ended September 30, 2019 and 2018, received an allocation of $114,317 and $0, respectively, from PSTFA. Total benefits and administrative expenses for the years ended September 30, 2019 and 2018 amounted to $108,313 and $110,654, respectively. However, while MISSA accepts the liability for any amounts received, MISSA does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. As of September 30, 2019 and 2018, the amount of $21,603 and $15,599, respectively, is available for future benefit payments under the Prior Service Benefits Program.

(4) Deposits and Investments

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

(i) Government obligations - Obligations issued or guaranteed as to principal and interest by RepMar or by the Government of the United States, provided that the total market value of the investments in obligations guaranteed by RepMar shall at the time of purchase not exceed twenty-five percent (25%) of the total market value of all investments of MISSA, and further provided that the principal and interest on each obligation are payable in the currency of the United States.

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

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

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

A. Deposits:

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

(4) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2019 and 2018, the carrying amount of MISSA's cash and time certificate of deposit was $3,595,599 and $3,615,309, respectively, and the corresponding bank balances were $3,753,512 and $3,853,283, respectively. Of the bank balances, $347,702 and $647,792, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $3,405,810 and $3,205,491, respectively, are maintained in a financial institution not subject to depository insurance. As of September 30, 2019 and 2018, bank deposits in the amount of $250,000 were FDIC insured. MISSA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments:

As of September 30, 2019 and 2018, investments in marketable securities are as follows:

	2019	2018
Mutual funds	$ 46,000,543	$ 46,688,465
Exchange Traded funds	11,642,344	8,932,001
Cash management funds	59,616	252,535
	$ 57,702,503	$ 55,873,001

MISSA has the following recurring fair value measurements as of September 30, 2019 and 2018:

		Fair Value Measurements Using		
	September 30, 2019	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Exchange Traded funds	$ 11,642,344	$ 11,642,344	$ -	$ -
Mutual funds	46,000,543	46,000,543	-	-
	57,642,887	$ 57,642,887	$ -	$ -
Investments measured at amortized cost:				
Money market funds	59,616			
	$ 57,702,503			

(4) Deposits and Investments, Continued

A. Investments, Continued

		Fair Value Measurements Using		
	September 30, 2018	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Exchange Traded funds	$ 8,932,001	$ 8,932,001	$ -	$ -
Mutual funds	46,688,465	46,688,465	-	-
	55,620,466	$ 55,620,466	$ -	$ -
Investments measured at amortized cost:				
Money market funds	252,535			
	$ 55,873,001			

Additionally, MISSA owns 60,150 shares of common stock in Marshall Islands Holdings, Inc. (MIHI), which engages in all aspects of holding company activities in the RMI and which is the sole shareholder of Bank of Marshall Islands (BOMI). During the year ended September 30, 2019, MISSA exchanged 2,500 shares of MIHI common stock at $200/share for 38,461 shares of Marshall Islands Service Corporation (MISCo) common stock at $13/share.

MISSA also owns 80,080 shares of common stock in MISCo, which is majority-owned by MIHI.

The investment in MIHI is accounted for on the equity method since the investment constitutes 36% and 37%, respectively, ownership share as of September 30, 2019 and 2018. At September 30, 2019 and 2018, MISSA's investment in MIHI amounted to $18,740,035 and $17,395,014, respectively. The investment in MISCo is stated at NAV. At September 30, 2019 and 2018, MISSA's investment in MISCo amounted to $1,030,097 and $530,097, respectively.

As of September 30, 2019 and 2018, MISSA maintained bank deposits with BOMI totaling $3,405,810 and $3,205,491, respectively. During the years ended September 30, 2019 and 2018, MISSA received cash dividend payments from MIHI of $500,133 and $493,099, respectively.

During the years ended September 30, 2019 and 2018, the total net increase in fair value of investments included $2,345,153 and $2,430,530, respectively, of equity in the net earnings of MIHI.

(4) Deposits and Investments, Continued

A. Investments, Continued

A summarized financial information of MIHI as of and for the years ended December 31, 2019 and 2018 is presented on the table below:

	2019	2018
Total assets	$ 135,898,616	$ 135,377,930
Total liabilities	$ 79,449,431	$ 83,278,321
Equity:		
Attributable to stockholders of MIHI	$ 51,143,851	$ 47,413,344
Noncontrolling interest	$ 5,305,334	$ 4,686,265
Net income attributed to:		
Stockholder of MIHI	$ 5,074,779	$ 5,709,095
Noncontrolling interests	$ 373,318	$ 438,749

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At September 30, 2019 and 2018, MISSA's investment portfolio did not include investments in debt securities. Accordingly, MISSA is not exposed to credit risk.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, MISSA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. MISSA's investments are held and administered by trustees. MISSA's custodian holds investment securities in MISSA's name. MISSA's custodian is not affiliated or related to investment brokers. Accordingly, these investments are not exposed to custodial credit risk.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for MISSA. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. There was no concentration of credit risk for investments as of September 30, 2019 and 2018.

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, 2019 and 2018, 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, 2019 and 2018, including applicable allowances for doubtful accounts, are as follows:

	2019	2018
Contributions	$ 4,559,939	$ 5,021,500
Court judgments	4,307,754	4,281,005
Notes	1,141,516	1,038,252
Other	287,815	179,046
	10,297,024	10,519,803
Less allowance for doubtful accounts	(6,522,649)	(6,666,096)
	$ 3,774,375	$ 3,853,707

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

(6) Related Party Transactions

As of September 30, 2019 and 2018, MISSA recorded amounts payable to the Marshall Islands Health Fund of $1,664,543 and $1,913,506, respectively, which represented unremitted basic health fund employee and employer contributions collected by MISSA at the respective year ends. Such is included in the statements of fiduciary net position as due to affiliate.

During the years ended September 30, 2019 and 2018, MISSA received an appropriation of $2,314,747 and $2,976,000, respectively, from RepMar's General Fund to subsidize monthly benefit payments as enacted by Public Law 2017-29.

(7) Capital Assets

Capital asset activity for the years ended September 30, 2019 and 2018, is as follows:

	October 1, 2018	Additions	Retirements	September 30, 2019
Buildings and improvements	$ 587,097	$ -	$ -	$ 587,097
Computer equipment	89,337	7,778	(6,333)	90,782
Motor vehicles	95,300	62,782	(24,500)	133,582
Office equipment	98,373	11,460	(58,347)	51,486
Furniture	59,652	18,518	-	78,170
	929,759	100,538	(89,180)	941,117
Less accumulated depreciation and amortization	(809,700)	(65,418)	89,180	(785,938)
	$ 120,059	$ 35,120	$ -	$ 155,179

(7) Capital Assets, Continued

	October 1, 2017	Additions	Retirements	September 30, 2018
Buildings and improvements	$ 511,597	$ 75,500	$ -	$ 587,097
Computer equipment	117,342	32,912	(60,917)	89,337
Motor vehicles	95,300	-	-	95,300
Office equipment	95,391	2,982	-	98,373
Furniture	59,467	185	-	59,652
	879,097	111,579	(60,917)	929,759
Less accumulated depreciation and amortization	(838,912)	(31,705)	60,917	(809,700)
	$ 40,185	$ 79,874	$ -	$ 120,059

(8) Employee Retirement Plan

In 2017, MISSA implemented a defined contribution retirement savings plan (the Plan) for its employees who have completed at least 3 months of service. Plan participants may contribute up to 10% of their gross salaries, with MISSA paying 20% of the employees' share for those with two years of service, 40% for three years of service, 60% for four years of service, 80% for five years of service and 100% for six years of service or more. Withdrawal from the Plan occurs upon termination of employment, retirement at age 65, permanent disability or death. Plan assets are held in a trust fund administered by a trustee in accordance with the trust agreement. Management has the authority to establish or amend Plan provisions and contribution requirements. MISSA contributed $23,007 and $24,892 to Plan participant accounts during the years ended September 30, 2019 and 2018, respectively, and total plan assets were $116,896 and $73,181 as of September 30, 2019 and 2018, respectively.

(9) Contingencies

MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2018. The valuation reported actuarial accrued liabilities and market value of assets for the Retirement Fund of $428.74 million and $79.27 million, respectively, as of October 1, 2018. The funded ratio of the Retirement Fund as of October 1, 2018 is 18%. As of September 30, 2019, MISSA recorded total fund equity of $83,132,371 in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that MISSA may be unable to meet its future benefit obligations.

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

(10) Risk Management

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

(11) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. Downturn in the global market caused by this pandemic has resulted in a decline of approximately $5.8 million in the market value of MISSA's long-term investments in marketable securities through May 31, 2020. As of June 16, 2020, there has been no confirmed case of COVID-19 in the Marshall Islands. MISSA has determined that should the pandemic reach the Marshall Islands, it may negatively impact MISSA's operations and MISSA may become dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Therefore, while MISSA expects this matter to potentially have a negative impact on its investments and changes in net position available for benefits, the related financial impact cannot be reasonably estimated at this time.

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

Combining Statement of Fiduciary Net Position
September 30, 2019

	Retirement Fund	Prior Service Fund	Total Before Elimination	Elimination	Total
ASSETS					
Cash	$ 1,515,230	$ 80,369	$ 1,595,599	$ -	$ 1,595,599
Receivables, net	3,828,807	600	3,829,407	(55,032)	3,774,375
Investments:					
Cash management	59,616	-	59,616	-	59,616
Time certificate of deposit	2,000,000	-	2,000,000	-	2,000,000
Stocks	19,770,132	-	19,770,132	-	19,770,132
Exchange traded funds	11,642,344	-	11,642,344	-	11,642,344
Mutual funds	46,000,543	-	46,000,543	-	46,000,543
Total investments	79,472,635	-	79,472,635	-	79,472,635
Capital assets, net	155,179	-	155,179	-	155,179
Total assets	84,971,851	80,969	85,052,820	(55,032)	84,997,788
LIABILITIES					
Accounts payable	63,641	-	63,641	-	63,641
Other liabilities and accruals	111,296	59,366	170,662	(55,032)	115,630
Due to affiliate	1,664,543	-	1,664,543	-	1,664,543
Total liabilities	1,839,480	59,366	1,898,846	(55,032)	1,843,814
NET POSITION					
Held in trust for retirement, disability and survivors' benefits	$ 83,132,371	$ 21,603	$ 83,153,974	$ -	$ 83,153,974

See Accompanying Independent Auditors' Report.

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

Combining Statement of Changes in Fiduciary Net Position
Year Ended September 30, 2019

	Retirement Fund	Prior Service Fund	Total Before Elimination	Elimination	Total
Additions:					
Contributions:					
Private employees	$ 13,403,279	$ -	$ 13,403,279	$ -	$ 13,403,279
Government employees	6,608,620	-	6,608,620	-	6,608,620
Penalties and interest	796,180	-	796,180	-	796,180
Total contributions	20,808,079	-	20,808,079	-	20,808,079
Recovery of doubtful accounts	143,446	-	143,446	-	143,446
Net contributions income	20,951,525	-	20,951,525	-	20,951,525
Investment income:					
Net change in the fair value of investments	14,417	-	14,417	-	14,417
Dividends	2,316,894	-	2,316,894	-	2,316,894
Interest	10,793	-	10,793	-	10,793
Total investment income	2,342,104	-	2,342,104	-	2,342,104
Less investment expense:					
Management and custodial fees	136,251	-	136,251	-	136,251
Net investment income	2,205,853	-	2,205,853	-	2,205,853
Other additions	261,468	114,317	375,785	(17,997)	357,788
RepMar subsidy	2,314,747	-	2,314,747	-	2,314,747
Total additions	25,733,593	114,317	25,847,910	(17,997)	25,829,913
Deductions:					
Benefit payments:					
Retirement	12,652,402	25,530	12,677,932	-	12,677,932
Survivors	7,153,156	64,786	7,217,942	-	7,217,942
Disability	803,963	-	803,963	-	803,963
Lump sum	135,455	-	135,455	-	135,455
Total benefit payments	20,744,976	90,316	20,835,292	-	20,835,292
Administrative	1,106,091	17,997	1,124,088	(17,997)	1,106,091
Total deductions	21,851,067	108,313	21,959,380	(17,997)	21,941,383
Change in net position	3,882,526	6,004	3,888,530	-	3,888,530
Net position at beginning of year	79,249,845	15,599	79,265,444	-	79,265,444
Net position at end of year	$ 83,132,371	$ 21,603	$ 83,153,974	$ -	$ 83,153,974

See Accompanying Independent Auditors' Report.

Deloitte.

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

Board of Directors
Marshall Islands Social Security Administration:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Marshall Islands Social Security Administration (MISSA), which comprise the statement of fiduciary net position as of September 30, 2019, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Deloitte.

Purpose of this Report

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

Deloitte & Touche LLP

June 16, 2020

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

Unresolved Prior Year Findings
Year Ended September 30, 2019

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