

*Financial Statements, Required Supplementary Information,
Supplementary Information, and Report on Internal Control
and Compliance*

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

*Years ended September 30, 2023 and 2022
with Report of Independent Auditors*



Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements, Required Supplementary Information,
Supplementary Information, and Report on Internal Control and Compliance

Years ended September 30, 2023 and 2022

Contents

Report of Independent Auditors.....	1
Management’s Discussion and Analysis	4
Audited Basic Financial Statements	
Statements of Fiduciary Net Position	12
Statements of Changes in Fiduciary Net Position.....	13
Notes to Financial Statements.....	14
Supplementary Information	
Combining Statements of Fiduciary Net Position	32
Combining Statements of Changes in Fiduciary Net Position.....	34
Internal Control and Compliance	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36



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Report of Independent Auditors

Board of Directors
Marshall Islands Social Security Administration

Opinion

We have audited the financial statements of the fiduciary activities of Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of the Marshall Islands, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise MISSA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary activities of MISSA at September 30, 2023 and 2022, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MISSA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MISSA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MISSA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MISSA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

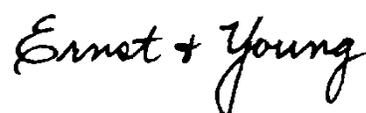
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise MISSA's basic financial statements. The supplementary information on pages 32 through 35 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2025 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.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

September 9, 2025

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

Years ended September 30, 2023 and 2022

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 year ended September 30, 2023 with comparative information for 2022 and 2021. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, we encourage the readers to consider it in conjunction with the audited financial statements, which follow this section.

REQUIRED FINANCIAL STATEMENTS

MISSA, a component unit of the Republic of the Marshall Islands (RepMar), prepares its financial statements on the accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Statements of Fiduciary Net Position reflect all of MISSA's assets and liabilities and provide information on the nature 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 12 and the Statements of Changes in Fiduciary Net Position on page 13 provide an indication of MISSA's financial condition. While these statements measure the value of MISSA's net position and the changes to them, another important factor to consider in determining the financial health of MISSA is its actuarial funded status.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF MISSA, CONTINUED

A summary of MISSA's Statements of Fiduciary Net Position as of September 30, 2023, 2022 and 2021 is presented below:

Summary Statements of Fiduciary Net Position

As of September 30,

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Cash and cash equivalents	\$ 8,258,814	\$ 5,693,314	\$ 4,036,935
Time Certificate of Deposit	3,763,869	3,500,000	3,500,000
Receivables, net	7,052,490	5,027,836	5,152,172
Other			
Investments:			
Cash management	33,847	95,264	95,931
Stocks	48,779,936	44,213,006	49,458,097
Mutual funds	42,236,322	37,899,767	44,083,970
Fixed assets, net	<u>205,805</u>	<u>281,765</u>	<u>399,800</u>
Total assets	<u>110,331,083</u>	<u>96,710,952</u>	<u>106,726,905</u>
LIABILITIES			
Accounts payable	345,005	237,006	188,175
Other liabilities and accruals	67,936	11,217	12,659
Due to affiliates	<u>850,276</u>	<u>1,256,749</u>	<u>2,358,756</u>
Total liabilities	<u>1,263,217</u>	<u>1,504,972</u>	<u>2,559,590</u>
FIDUCIARY NET POSITION			
Held in trust for future benefits	<u>\$109,067,866</u>	<u>\$95,205,980</u>	<u>\$104,167,315</u>

Despite the global disruptions caused by the COVID-19 pandemic, the Marshall Islands experienced relatively minimal economic impact. As a result, tax revenues remained largely unaffected and collection levels were stable.

By the end of September 2023, contributions totaled \$24.992 million. This enabled the Administration to meet its operational needs and ensure uninterrupted benefit payments without dipping into its Trust Funds. Further, the \$1.4 million subsidy that was appropriated for MISSA in FY 2023 helped the Administration to maintain enough cash reserves to cover its daily operations. In addition to this, Workers' Compensation Program was successfully implemented on October 1, 2023.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF MISSA, CONTINUED

MISSA's foreign investment portfolio experienced significant losses in FY2022 due to adverse conditions in the global market brought by the Russian-Ukraine war and China's Zero-Covid Policy. However, by September 2023, approximately 90% of these losses were substantially reversed, reflecting a strong rebound in performance, as valuation improvements and favorable exchange rate movements materially restored the investment's carrying value.

As of September 30, 2023, MISSA's total net position held in reserve for future benefits amounted to \$109.068 million. MISSA has no debt and did not have material activity in its capital assets. Please refer to the notes to the financial statements for additional information concerning these matters.

A summary of MISSA's Statements of Changes in Fiduciary Net Position for the years ended September 2023, 2022 and 2021 is presented below:

Summary Statements of Changes in Fiduciary Net Position
Year ended September 30,

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Additions:			
Contributions	\$24,992,039	\$22,718,743	\$22,640,520
Net investment income/(loss)	9,545,071	(10,767,465)	13,856,118
RMI Subsidy	1,388,800	1,388,800	1,587,200
Others	<u>176,035</u>	<u>298,485</u>	<u>340,056</u>
Total additions	<u>36,101,945</u>	<u>13,638,563</u>	<u>38,423,894</u>
Deductions:			
Benefit payments	20,780,851	21,346,041	21,202,996
Administrative	<u>1,459,208</u>	<u>1,253,857</u>	<u>1,208,166</u>
Total deductions	<u>22,240,059</u>	<u>22,599,898</u>	<u>22,411,162</u>
Change in net position	<u>\$13,861,886</u>	<u>\$(8,961,335)</u>	<u>\$16,012,732</u>

The MD&A for the year ended September 30, 2022 is set forth in MISSA's report on the audit of its financial statements dated May 6, 2025. Such MD&A explains the major factors impacting the fiscal year 2022 financial statements and can be obtained from MISSA's Administrator via the contact information on page 11.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF MISSA, CONTINUED

Additions:

The RMI Government remained consistent in paying its bi-weekly remittances on time, which comprised 32.1% of total contributions. The committed, proactive efforts and diligence of Tax Compliance and Audit Officers in enforcing collection measures played a key role in meeting the targeted tax collections. Furthermore, affordable payment plans were offered to certain employers who failed to pay on time, which encouraged them to sign new promissory notes.

For the fiscal year ending September 30, 2023, the aggregate contributions from Majuro, Kwajalein and other atolls totaled \$24.992 million.

The following table presents MISSA's investment allocations as of September 30, 2023 and 2022:

Investment Type	As of September 30, 2023				As of September 30, 2022			
	Weight	Target	Market Value (\$'000)	Target Value (\$'000)	Weight	Target	Market Value (\$'000)	Target Value (\$'000)
Small Cap	4.62%	4.20%	3,206	2,915	4.82%	4.20%	2,930	2,553
Small Cap Value	2.90%	2.10%	2,010	1,457	3.01%	2.10%	1,830	1,277
Large Cap Growth	11.65%	12.60%	8,086	8,744	10.38%	12.60%	6,310	7,659
Large Cap	14.96%	14.70%	10,382	10,201	14.10%	14.70%	8,571	8,936
Large Cap Value	12.42%	11.90%	8,618	8,258	12.16%	11.90%	7,392	7,234
Int'l Small Cap	2.95%	2.80%	2,044	1,943	2.77%	2.80%	1,684	1,702
Int'l Small Cap Value	2.19%	2.10%	1,518	1,457	1.95%	2.10%	1,185	1,276
Int'l Large Cap	5.47%	7.00%	3,799	4,858	4.98%	7.00%	3,027	4,255
Int'l Large Cap Value	5.22%	4.90%	3,622	3,400	4.78%	4.90%	2,906	2,979
Emerging Markets	4.18%	4.20%	2,903	2,915	4.07%	4.20%	2,474	2,553
Domestic Real Estate	2.10%	2.10%	1,461	1,458	2.46%	2.10%	1,495	1,276
International Real Estate	1.20%	1.40%	834	972	1.32%	1.40%	802	851
Bonds	30.09%	30.00%	20,880	20,819	33.16%	30.00%	20,157	18,236
Cash and Equivalents	0.05%	0.00%	34	0	0.04%	0.00%	24	0
TOTAL	100%	100%	\$69,397	\$69,397	100%	100%	\$60,787	\$60,787

The above allocations are based on the current investment policy statement adopted by the Board of Directors on August 13, 2021 wherein MISSA's total investment portfolio requires an allocation of 70% for equities and 30% for bonds.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF MISSA, CONTINUED

Additions, continued:

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

For the fiscal year ended September 30, 2023, the fair market value of MISSA's investments in U.S. and international markets increased by \$8.61 million, rising from \$60.787 million in FY2022 to \$69.397 million. After the sharp downturn in 2020 and early 2021 triggered by the COVID-19 pandemic, global investments rebounded significantly in 2023. No investment drawdown was made in FY2023, and we maintained a positive cashflow. A total of \$1.825 million in dividends and interest payments were received and subsequently reinvested. Investment management fees have marginally increased from \$164,626 in 2022 to \$165,553 in 2023.

MISSA presently holds a 36 % interest in MIHI, a local holding company incorporated on February 27, 2013. On October 31, 2013, MIHI acquired all the outstanding common stock of Bank of the Marshall Islands (BOMI). Prior to MIHI's acquisition of BOMI, MISSA owned 65,417 shares of stocks of BOMI valued at \$10.96 million. 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 further reduced the Administration's stockholding with MIHI to 60,150 shares. In 2020 and 2021, MISSA received 100 additional shares from MIHI, which increased MISSA's stockholding with MIHI to 60,250 shares. In 2022, MISSA received 50 additional shares from MIHI, which increased MISSA's stockholding with MIHI to 60,300 shares. In 2023, MISSA's shares remains at 60,300 shares.

On November 10, 2017, the Board approved the transfer of \$1 million from MISSA's investments with MIHI to MISCo or the equivalent of 76,925 MISCo shares at \$13.00 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, 2022, MISSA's investment at MIHI increased in value by \$1.566 million representing BOMI's fiscal year equity earnings, less dividends received and value of sold shares. Annual dividend payment of \$482,105 was received from MIHI in December 2022 for calendar year 2022. At September 30, 2023, the investment at MIHI amounted to \$20.145 million. Likewise, MISSA holds 80,080 shares of MISCo stock with a current value of \$1.5 million.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF MISSA, CONTINUED

Deductions:

Deductions represent benefit payments and administrative expenses. For the year ended September 30, 2023, total deductions amounted to \$22.24 million, which is \$0.36 million lower than the \$22.6 million paid in the previous year. The decrease was due to the suspension of benefit payments starting February 2023 in pursuit of the mandatory screening procedures done in October 2022 to January 2023. Under the new compliance regime, payments to participants who failed to complete the required screening test were suspended pending verification of eligibility. As a result, the active payment population decreased until compliance was confirmed, and benefits were reinstated.

Administrative expenses were maintained within the budgetary limit. For the year ended September 30, 2023 MISSA's administrative expenses totaled \$1.459 million. This amount represents 5.8% of total contributions generated during the year. 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

Since the adoption by the Nitijela of the proposed amendments to the Social Security Act of 1990 in 2017, the Administration's cash flow has remained positive over the years. With the help of the RMI Government's annual subsidies, the Administration was able to raise its cash reserves year after year. In March 2022, a cash surplus of \$2.5 million was generated, which was deposited to a local bank under a special savings account with interest above the prevailing rate of a regular savings account.

The Administration's ultimate objective is not only to maintain positive cash flows but also to generate consistent annual surpluses. These surpluses are intended to be used gradually to repay the \$22.3 million withdrawn from the Trust Fund between 2010 and 2016. It is important to highlight that during that period, member contributions remained flat while benefit payments grew at an average rate of 6% per year. This widening gap between contributions and obligations led to substantial cash shortfalls, leaving the Administration with no viable option but to draw from the Trust Fund to ensure uninterrupted benefit payments.

Tax delinquency remains a constant challenge for the Administration. Despite repeated demands and court orders, certain employers continue to default on their payments. Despite this setback, MISSA's tax compliance officers and auditors are determined as ever to continue with their aggressive tax collection campaign, payroll audits and legal referrals to improve, or at least, maintain their targeted collection rate of 88% to 90% percent of the amount due and collectible.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

FUTURE ECONOMIC OUTLOOK, CONTINUED

Nitijela's legislation Bill 45 (P.L. 2021-36) passed on November 12, 2021 fixed the normal retirement age to 63, which was projected to increase benefits in FY 2023. This has become another serious challenge to the Administration's long-term goal to generate annually at least a \$1 million operating surplus intended to grow-back the Trust Fund. The Administration implemented the mandatory eligibility screening from October 2022 and January 2023 and, as a result, the benefit payments for 129 old-age and medical retirees, as well as surviving spouses and children who did not comply with the survey requirements on time, were suspended. This measure led to an artificial reduction in total benefit disbursements for FY2023. The Administration plans to conduct another round of mandatory eligibility screening from October to December 2025. Beginning in January 2026, benefit payments will be withheld from individuals who fail to comply with the screening requirements.

The demand to either suspend or give back the 5%-10% benefit reductions brought about by the MISSA reform law in 2017 has become a constant issue being thrown to MISSA by its beneficiaries and has even become a persistent subject of debate in the Nitijela. If this demand is granted, MISSA will need to ask for more subsidies from the Government to compensate for the increase in benefit payments amounting to at least \$1 million every year.

In FY 2022, MISSA's net position dropped significantly from the previous year due to the \$11.83 million decline in market value of its foreign investments. The loss was driven by interest hikes to curb inflation worldwide, slow growth, fears of global recession, the Russia-Ukraine war, geopolitical tensions and the lingering effects of the COVID-19 pandemic. Fortunately, MISSA made a complete turnaround in FY 2023 as investments rebounded with an \$8.6 million increase in market value, equivalent to 14.18% time-weighted net return.

Despite the steady growth in offshore investments in recent years, the long-term viability of the Retirement Fund is still being threatened by MISSA's huge actuarial accrued liability of \$393 million as of October 1, 2021 while MISSA's net position amounted to \$104 million as of the same period. This resulted in a funded ratio of 26%, a big improvement from the funded rate of 18% as of October 1, 2018. The current level still indicates substantial underfunding and presents a material financial vulnerability. The next actuarial valuation is due on October 1, 2024.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

FUTURE ECONOMIC OUTLOOK, CONTINUED

The Investment Committee that oversees the Administration's investment performance has remained watchful and is in constant communication with the Investment Advisor to ensure that the terms and conditions in its Investment Policy Statement (IPS) are consistently and strictly followed. As part of the Committee's terms of reference, all Board members are required to undergo basic fiduciary training to learn the fundamental knowledge of their duties and responsibilities as stewards of the Retirement Fund. Furthermore, in alignment with fiduciary standards, the Administration will release a formal Request for Proposal (RFP) for Investment Advisor. This initiative is intended to ensure that MISSA's investment strategy—aimed at optimizing returns while minimizing risk—remains effective and aligned with long-term objectives.

Despite the improving financial performance of MISSA and its positive cash flow in the past five years, the Administration believes that without the continuous Government appropriation and support by the Nitijela, the long-term stability of the Fund will always face serious challenges. The October 1, 2021 actuarial report has shown that if the RMI Government were to stop its subsidy to MISSA and the number of active contributors remain unchanged, the funded status of the Retirement Fund will gradually drop over the years and by 2032, nothing will be left in the Fund to pay present and future beneficiaries.

MISSA remains optimistic about its financial outlook in the year ahead and expects continued strong and unwavering support from RMI government to sustain the Retirement Fund's long-term stability. MISSA shall continue to maintain close collaboration with RMI legislators to explore and implement long-term sustainable funding strategies. MISSA's collective goal is to safeguard the viability of the Marshall Islands Retirement Fund and maintain its financial health for generations to come.

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 bryan.edejer@rmimissa.net.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Statements of Fiduciary Net Position

	September 30,	
	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 8,258,814	\$ 5,693,314
Receivables, net	<u>7,052,490</u>	<u>5,027,836</u>
Investments:		
Cash management	33,847	95,264
Time certificate of deposit	3,763,869	3,500,000
Stocks	21,653,074	21,421,143
Exchange traded funds	27,126,862	22,791,863
Mutual funds	<u>42,236,322</u>	<u>37,899,767</u>
Total investments	<u>94,813,974</u>	<u>85,708,037</u>
Capital assets, net	<u>205,805</u>	<u>281,765</u>
Total assets	<u>110,331,083</u>	<u>96,710,952</u>
LIABILITIES		
Accounts payable	345,005	237,006
Other liabilities and accruals	67,936	11,217
Due to affiliates	<u>850,276</u>	<u>1,256,749</u>
Total liabilities	<u>1,263,217</u>	<u>1,504,972</u>
Contingencies		
NET POSITION		
Held in trust for retirement, disability and survivors' benefits	<u>\$ 109,067,866</u>	<u>\$ 95,205,980</u>

See accompanying notes.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Statements of Changes in Fiduciary Net Position

	Year ended September 30,	
	2023	2022
Additions:		
Contributions:		
Private employees	\$ 17,034,118	\$ 14,460,513
Government employees	8,022,799	6,884,914
Penalties and interest	303,443	203,492
Total contributions	25,360,360	21,548,919
(Provision for) recovery of bad debts	(368,321)	1,169,824
Net contributions income	24,992,039	22,718,743
Investment income (loss):		
Net change in the fair value of investments	7,884,955	(12,431,505)
Dividends	1,644,778	1,703,940
Interest	180,891	124,726
Total investment income (loss)	9,710,624	(10,602,839)
Less investment expense:		
Investment fees	(165,553)	(164,626)
Net investment income (loss)	9,545,071	(10,767,465)
Other additions	176,035	298,485
RepMar subsidy	1,388,800	1,388,800
Total additions	36,101,945	13,638,563
Deductions:		
Benefit payments:		
Retirement	11,779,684	12,170,478
Survivors	7,668,231	7,920,694
Disability	898,676	892,531
Lump sum	434,260	362,338
Total benefit payments	20,780,851	21,346,041
Administrative	1,459,208	1,253,857
Total deductions	22,240,059	22,599,898
Change in net position	13,861,886	(8,961,335)
Net position at beginning of year	95,205,980	104,167,315
Net position at end of year	\$ 109,067,866	\$ 95,205,980

See accompanying notes.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements

Years ended September 30, 2023 and 2022

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 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.

On September 30, 2019, the Nitijela enacted Public Law 2019-107 (Workers Compensation Act 2019), which established legislation for the purpose of providing compensation and rehabilitation of workers in respect of work-related injuries and fatalities. The effective implementation date is October 1, 2023, and designated MISSA as the administrator of the program.

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

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies

The accounting policies of MISSA conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically fiduciary funds. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

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 MD&A. The MD&A is 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.

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.

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.

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.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Investments, continued

MISSA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

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

Receivables and the Allowance for Doubtful Accounts

Contributions 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.

Capital Assets

Capital 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

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

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, 2023 and 2022, the accumulated annual leave liability amounted to \$7,323 and \$3,582, respectively, and is included in the statements of fiduciary net position within other liabilities and accruals.

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.

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 8% of wages while every employer is required to contribute an amount equal to that contributed by employees. Maximum quarterly taxable wages are \$10,000.

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 have 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.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Benefit Obligations, continued

Benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements, if they do not remarry. Eligible children who are not married and are not working may also receive benefits until age eighteen (18) or 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 the 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 more than \$11,000 but not more than \$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:

<u>Monthly Benefit Range</u>	<u>Percent of Reduction in</u>			<u>But Not Less Than</u>
	<u>2017</u>	<u>2018</u>	<u>2019 and onward</u>	
\$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.

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.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 89 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. In accordance with GASB Statement No. 95, MISSA elected to postpone implementation of these statements.

During the year ended September 30, 2023, MISSA implemented the following pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations*, which provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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 implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The implementation of this Statement did not have a material effect on the accompanying financial statements.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. This Statement provides clarification of provisions in:
 - 1) GASB Statement No. 87, *Leases*, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
 - 2) GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
 - 3) GASB Statement No. 96 related to the SBITA term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

This Statement modifies accounting and reporting guidance in:

- 4) GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, related to termination of hedge.

The implementation of this Statement did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. The MISSA is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for the fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the fiscal year ending September 30, 2024.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. The MISSA is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for the fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. The MISSA is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for the fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for the fiscal year ending September 30, 2025.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to MD&A, unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in basic financial statements, budgetary comparison information and financial trends information in the statistical section. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 103 will be effective for the fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 104 will be effective for the fiscal year ending September 30, 2026.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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, 2023 and 2022, received an allocation of \$81,000 and \$58,900, respectively, from PSTFA. Total benefits and administrative expenses for the years ended September 30, 2023 and 2022, amounted to \$75,951 and \$81,933, 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, 2023 and 2022, no funds are available for future benefit payments under the Prior Service Benefits Program.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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 no 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.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

4. Deposits and Investments, continued

Deposits

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

As of September 30, 2023, and 2022, the carrying amount of MISSA's cash and time certificates of deposit were \$12,022,683 and \$9,193,314, respectively, and the corresponding bank balances were \$12,279,776 and \$9,507,472, respectively. Of the bank balance amounts, \$927,878 and \$1,133,502, respectively, was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$11,351,898 and \$8,373,970, respectively, was maintained in a financial institution not subject to depository insurance. As of September 30, 2023, and 2022, bank deposits in the amount of \$250,000 were FDIC insured. MISSA does not require collateralization of its cash deposits; therefore, deposit levels more than FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments

As of September 30, 2023 and 2022, investments in marketable securities are as follows:

	<u>2023</u>	<u>2022</u>
Mutual funds	\$42,236,322	\$37,899,767
Exchange traded funds	27,126,862	22,791,863
Cash management funds	<u>33,847</u>	<u>95,264</u>
	<u>\$69,397,031</u>	<u>\$60,786,894</u>

MISSA has the following recurring fair value measurements as of September 30, 2023 and 2022:

		Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:	September 30, <u>2023</u>			
Exchange traded funds	\$27,126,862	\$27,126,862	\$ ---	\$ ---
Mutual funds	<u>42,236,322</u>	<u>42,236,322</u>	<u>---</u>	<u>---</u>
	69,363,184	<u>\$69,363,184</u>	<u>\$ ---</u>	<u>\$ ---</u>
Investments measured at amortized cost:				
Money market funds	<u>33,847</u>			
	<u>\$69,397,031</u>			

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

4. Deposits and Investments, continued

Investments, continued

	September 30, 2022	<u>Fair Value Measurements Using</u>		
		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	\$22,791,863	\$22,791,863	\$ ---	\$ ---
Mutual funds	<u>37,899,767</u>	<u>37,899,767</u>	<u>---</u>	<u>---</u>
	60,691,630	<u>\$60,691,630</u>	<u>\$ ---</u>	<u>\$ ---</u>
Investments measured at amortized cost:				
Money market funds	<u>95,264</u>			
	<u>\$60,786,894</u>			

MISSA owns 60,300 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). In addition, MISSA owns 80,080 shares of common stock of Marshall Islands Service Corporation (MISCO), which is majority-owned by MIHI.

The investment in MIHI is accounted for using the equity method since the investment constitutes 36% ownership share as of September 30, 2023 and 2022. As of September 30, 2023 and 2022, MISSA's investment in MIHI amounted to \$20,145,023 and \$19,913,092, respectively. The investment in MISCO is stated at NAV. As of September 30, 2023 and 2022, MISSA's investment in MISCO amounted to \$1,508,051.

As of September 30, 2023 and 2022, MISSA maintained bank deposits with BOMI totaling \$11,351,898 and \$8,373,970, respectively. During the years ended September 30, 2023 and 2022, MISSA received cash dividend payments from MIHI of \$482,105 and \$481,735, respectively.

During the years ended September 30, 2023 and 2022, the total net increase in fair value of investments included \$706,055 and \$392,215, respectively, of equity in the net earnings of MIHI.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

4. Deposits and Investments, continued

Investments, continued

A summarized financial information of MIHI as of and for the years ended December 31, 2023 and 2022, is presented on the table below:

	<u>2023</u>	<u>2022</u>
Total assets	\$ <u>179,699,602</u>	\$ <u>180,657,410</u>
Total liabilities	\$ <u>120,030,409</u>	\$ <u>120,505,090</u>
Equity:		
Attributable to stockholders of MIHI	\$ <u>53,598,903</u>	\$ <u>53,650,809</u>
Noncontrolling interest	\$ <u>6,070,290</u>	\$ <u>6,501,511</u>
Net income (loss) attributed to:		
Stockholders of MIHI	\$ <u>2,409,485</u>	\$(<u>561,454</u>)
Noncontrolling interests	\$ <u>171,565</u>	\$ <u>622,058</u>

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As of September 30, 2023 and 2022, MISSA's investment portfolio did not include investments in debt securities. Accordingly, MISSA is not exposed to credit risk from investments.

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 amounts 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, 2023 and 2022.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

4. Deposits and Investments, continued

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. As of September 30, 2023 and 2022, 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, 2023 and 2022, including applicable allowances for doubtful accounts, are as follows:

	<u>2023</u>	<u>2022</u>
Contributions	\$ 8,202,832	\$ 4,769,715
Court judgments	3,418,940	3,269,789
Notes	1,329,565	1,928,793
Due from RepMar	347,200	347,200
Interest	59,566	211,423
Other	<u>208,199</u>	<u>129,818</u>
	13,566,302	10,656,738
Less allowance for doubtful accounts	(<u>6,513,812</u>)	(<u>5,628,902</u>)
	<u>\$ 7,052,490</u>	<u>\$ 5,027,836</u>

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.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

6. Capital Assets

Capital asset activities for the years ended September 30, 2023 and 2022, are as follows:

	<u>October 1, 2022</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2023</u>
Depreciable capital assets:				
Buildings and improvements	\$ 942,669	\$ ---	\$ ---	\$ 942,669
Motor vehicles	137,390	---	---	137,390
Computer equipment	100,511	64,508	---	165,019
Furniture	64,398	2,175	---	66,573
Office equipment	<u>49,841</u>	<u>5,280</u>	<u>---</u>	<u>55,121</u>
	1,294,809	71,963	---	1,366,772
Less accumulated depreciation	<u>(1,013,044)</u>	<u>(147,923)</u>	<u>---</u>	<u>(1,160,967)</u>
	<u>\$ 281,765</u>	<u>\$(75,960)</u>	<u>\$ ---</u>	<u>\$ 205,805</u>
	<u>October 1, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2022</u>
Depreciable capital assets:				
Buildings and improvements	\$ 942,669	\$ ---	\$ ---	\$ 942,669
Motor vehicles	137,390	---	---	137,390
Computer equipment	93,691	6,820	---	100,511
Furniture	61,884	2,514	---	64,398
Office equipment	<u>46,582</u>	<u>3,259</u>	<u>---</u>	<u>49,841</u>
	1,282,216	12,593	---	1,294,809
Less accumulated depreciation	<u>(882,416)</u>	<u>(130,628)</u>	<u>---</u>	<u>(1,013,044)</u>
	<u>\$ 399,800</u>	<u>\$(118,035)</u>	<u>\$ ---</u>	<u>\$ 281,765</u>

7. Related Party Transactions

As of September 30, 2023 and 2022, due to affiliates are amounts payable to the Marshall Islands Health Fund (MIHF) of \$850,276 and \$1,256,749, respectively, which represent unremitted Basic Health Benefits Plan employee and employer contributions collected by MISSA at the respective year ends. In return, MISSA receives a fixed fee of \$200,000 per year for collecting contributions on behalf of the MIHF. During the year ended September 30, 2023, MISSA and the MIHF agreed to not collect the fixed fee. During the year ended September 30, 2022, MISSA and the MIHF agreed to reduce the fixed fee to \$150,000.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

7. Related Party Transactions, continued

During the years ended September 30, 2023 and 2022, MISSA received an appropriation of \$1,238,800 and \$1,288,800, respectively, from RepMar's General Fund to subsidize monthly benefit payments as enacted by Public Law 2017-29. In addition, MISSA received an appropriation of \$150,000 and \$100,000 during the years ended September 30, 2023 and 2022, respectively, from RepMar's General Fund for the purpose of establishing the Workers Compensation Fund.

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. During the years ended September 30, 2023 and 2022, MISSA contributed \$25,956 and 23,264, respectively, to the Plan participant accounts. As of September 30, 2023 and 2022, total plan assets were \$293,121 and \$209,563, respectively.

9. Contingencies

MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2024. The valuation reported actuarial accrued liabilities and market value of assets for the Retirement Fund of \$389.12 million and \$122.76 million, respectively, as of October 1, 2024. The funded ratio of the Retirement Fund as of October 1, 2024, is 32%. As of September 30, 2023 and 2022, MISSA recorded total fund equity of \$109,106,092 and \$95,195,890, respectively, 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 determined due primarily to noncompliance by employers.

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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.

Supplementary Information

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Combining Statements of Fiduciary Net Position

Year ended September 30, 2023

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Worker's Compensation</u>	<u>Total</u>
ASSETS				
Cash	\$ 8,224,450	\$ 20,596	\$ 13,768	\$ 8,258,814
Receivables, net	<u>7,051,890</u>	<u>600</u>	<u>---</u>	<u>7,052,490</u>
Investments:				
Cash management	33,847	---	---	33,847
Time certificate of deposit	3,763,869	---	---	3,763,869
Stocks	21,653,074	---	---	21,653,074
Exchange traded funds	27,126,862	---	---	27,126,862
Mutual funds	<u>42,236,322</u>	<u>---</u>	<u>---</u>	<u>42,236,322</u>
Total investments	<u>94,813,974</u>	<u>---</u>	<u>---</u>	<u>94,813,974</u>
Capital assets, net	<u>205,805</u>	<u>---</u>	<u>---</u>	<u>205,805</u>
Total assets	<u>110,296,119</u>	<u>21,196</u>	<u>13,768</u>	<u>110,331,083</u>
LIABILITIES				
Accounts payable	336,769	4,388	3,848	345,005
Other liabilities and accruals	2,983	13,286	51,667	67,936
Due to affiliates	<u>850,276</u>	<u>---</u>	<u>---</u>	<u>850,276</u>
Total liabilities	<u>1,190,028</u>	<u>17,674</u>	<u>55,515</u>	<u>1,263,217</u>
NET POSITION				
Held in trust for retirement, disability, and survivors' benefits	<u>\$ 109,106,091</u>	<u>\$ 3,522</u>	<u>\$(41,747)</u>	<u>\$ 109,067,866</u>

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Combining Statements of Fiduciary Net Position, continued

Year ended September 30, 2022

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Worker's Compensation</u>	<u>Total</u>
ASSETS				
Cash	\$ 5,677,388	\$ 3,260	\$ 12,666	\$ 5,693,314
Receivables, net	<u>5,027,236</u>	<u>600</u>	<u>---</u>	<u>5,027,836</u>
Investments:				
Cash management	95,264	---	---	95,264
Time certificate of deposit	3,500,000	---	---	3,500,000
Stocks	21,421,143	---	---	21,421,143
Exchange traded funds	22,791,863	---	---	22,791,863
Mutual funds	<u>37,899,767</u>	<u>---</u>	<u>---</u>	<u>37,899,767</u>
Total investments	<u>85,708,037</u>	<u>---</u>	<u>---</u>	<u>85,708,037</u>
Capital assets, net	<u>281,765</u>	<u>---</u>	<u>---</u>	<u>281,765</u>
Total assets	<u>96,694,426</u>	<u>3,860</u>	<u>12,666</u>	<u>96,710,952</u>
LIABILITIES				
Accounts payable	230,570	5,387	1,049	237,006
Other liabilities and accruals	11,217	---	---	11,217
Due to affiliates	<u>1,256,749</u>	<u>---</u>	<u>---</u>	<u>1,256,749</u>
Total liabilities	<u>1,498,536</u>	<u>5,387</u>	<u>1,049</u>	<u>1,504,972</u>
NET POSITION				
Held in trust for retirement, disability, and survivors' benefits	<u>\$ 95,195,890</u>	<u>\$(1,527)</u>	<u>\$ 11,617</u>	<u>\$ 95,205,980</u>

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Combining Statements of Changes in Fiduciary Net Position

Year ended September 30, 2023

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Worker's Compensation</u>	<u>Total</u>
Additions:				
Contributions:				
Private employees	\$ 17,034,118	\$ ---	\$ ---	\$ 17,034,118
Government employees	8,022,799	---	---	8,022,799
Penalties and interest	<u>303,443</u>	<u>---</u>	<u>---</u>	<u>303,443</u>
Total contributions	25,360,360	---	---	25,360,360
Provision for bad debts, net	(<u>368,321</u>)	<u>---</u>	<u>---</u>	(<u>368,321</u>)
Net contributions income	<u>24,992,039</u>	<u>---</u>	<u>---</u>	<u>24,992,039</u>
Investment income:				
Net change in the fair value of investments	7,884,955	---	---	7,884,955
Dividends	1,644,778	---	---	1,644,778
Interest	<u>180,751</u>	<u>---</u>	<u>140</u>	<u>180,891</u>
Total investment income	9,710,484	---	140	9,710,624
Less investment expense:				
Investment fees	(<u>165,553</u>)	<u>---</u>	<u>---</u>	(<u>165,553</u>)
Net investment income	<u>9,544,931</u>	<u>---</u>	<u>140</u>	<u>9,545,071</u>
Other additions	95,035	81,000	---	176,035
RepMar subsidy	<u>1,238,800</u>	<u>---</u>	<u>150,000</u>	<u>1,388,800</u>
Total additions	<u>35,870,805</u>	<u>81,000</u>	<u>150,140</u>	<u>36,101,945</u>
Deductions:				
Benefit payments:				
Retirement	11,765,165	14,519	---	11,779,684
Survivors	7,619,507	48,724	---	7,668,231
Disability	898,676	---	---	898,676
Lump sum	<u>434,260</u>	<u>---</u>	<u>---</u>	<u>434,260</u>
Total benefit payments	20,717,608	63,243	---	20,780,851
Administrative	<u>1,242,996</u>	<u>12,708</u>	<u>203,504</u>	<u>1,459,208</u>
Total deductions	<u>21,960,604</u>	<u>75,951</u>	<u>203,504</u>	<u>22,240,059</u>
Change in net position	13,910,201	5,049	(53,364)	13,861,886
Net position at beginning of year	<u>95,195,890</u>	(<u>1,527</u>)	<u>11,617</u>	<u>95,205,980</u>
Net position at end of year	<u>\$ 109,106,091</u>	<u>\$ 3,522</u>	<u>\$(41,747)</u>	<u>\$ 109,067,866</u>

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Combining Statements of Changes in Fiduciary Net Position, continued

Year ended September 30, 2022

	Retirement Fund	Prior Service Fund	Worker's Compensation	Total
Additions:				
Contributions:				
Private employees	\$ 14,460,513	\$ ---	\$ ---	\$ 14,460,513
Government employees	6,884,914	---	---	6,884,914
Penalties and interest	203,492	---	---	203,492
Total contributions	21,548,919	---	---	21,548,919
Recovery from bad debts	1,169,824	---	---	1,169,824
Net contributions income	22,718,743	---	---	22,718,743
Investment loss:				
Net change in the fair value of investments	(12,431,505)	---	---	(12,431,505)
Dividends	1,703,940	---	---	1,703,940
Interest	124,594	---	132	124,726
Total investment loss	(10,602,971)	---	132	(10,602,839)
Less investment expense:				
Investment fees	(164,626)	---	---	(164,626)
Net investment loss	(10,767,597)	---	132	(10,767,465)
Other additions	239,585	58,900	---	298,485
RepMar subsidy	1,288,800	---	100,000	1,388,800
Total additions	13,479,531	58,900	100,132	13,638,563
Deductions:				
Benefit payments:				
Retirement	12,154,555	15,923	---	12,170,478
Survivors	7,868,570	52,124	---	7,920,694
Disability	892,531	---	---	892,531
Lump sum	362,338	---	---	362,338
Total benefit payments	21,277,994	68,047	---	21,346,041
Administrative	1,151,456	13,886	88,515	1,253,857
Total deductions	22,429,450	81,933	88,515	22,599,898
Change in net position	(8,949,919)	(23,033)	11,617	(8,961,335)
Net position at beginning of year	104,145,809	21,506	---	104,167,315
Net position at end of year	\$ 95,195,890	\$(1,527)	\$ 11,617	\$ 95,205,980

Report of Independent Auditors 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 fiduciary activities of Marshall Islands Social Security Administration (MISSA), which comprise the statement of fiduciary net position as of September 30, 2023, 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 September 9, 2025.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MISSA's internal control. Accordingly, we do not express an opinion on the effectiveness of MISSA's internal control.

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

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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Ernst + Young

September 9, 2025