FEDERATED STATES OF MICRONESIA
SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2010 AND 2009

FEDERATED STATES OF MICRONESIA SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

Years Ended December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
FSM Social Security Administration:

We have audited the accompanying statements of net assets of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, as of December 31, 2010 and 2009, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Administration's management. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial status of the Administration as of December 31, 2010 and 2009, and the changes in financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Administration's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Administration taken as a whole. The accompanying Combining Statement of Net Assets (page 23) and Combining Statement of Changes in Net Assets (page 24) as of and for the year ended December 31, 2010 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Administration. These statements are the responsibility of the Administration's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2011, on our consideration of the Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

April 27, 2011

FEDERATED STATES OF MICRONESIA SOCIAL SECURITY ADMINISTRATION (A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

Management's Discussion and Analysis
Years Ended December 31, 2010 and 2009

The following discussion and analysis provides an understanding of the FSM Social Security Administration's (FSMSSA) financial performance for fiscal year ended December 31, 2010. This section has been prepared by the management and should be read in conjunction with the FSMSSA's financial statements and accompanying notes.

Administration

The FSMSSA is a successor System of the former Trust Territory Social Security System. It was established by the Federated States of Micronesia Public Law 2-74 and began its full operation on January 1, 1988. The FSMSSA provides retirement, disability and survivor benefits to the citizens of the Federated States of Micronesia.

Under Title 53 of the FSM Code, the authority to administer the FSMSSA is vested to a six-member Board of Trustees, five of whom are nominated by the President and confirmed by the Congress of the FSM. The nominations to the Board take into account the need to have adequate geographical representation and to have representatives from public and private sector employers and employees. The Board of Trustees was reorganized on February 01, 2011. The new members and officers of the Board of Trustees are as follows:

Rose N. Nakanaga	State of Pohnpei	Chairwoman of the Board
Jefferson Timothy	State of Kosrae	Vice Chairman of the Board
Nahoy G. Selifis	National Government	Member
Innocente Oneisom	State of Chuuk	Member
VACANT	State of Yap	Member
Alexander R. Narruhn	Administrator	Member, Ex officio

The Administrator, who is selected by the Board, is responsible for daily operation as well as supervision of branch managers from each of the four States of the FSM.

Funding

The FSM Social Security system is financed by employer/employee contributions at a rate of 6% each, or a combined tax rate of 12% paid to the system every quarter. The FSM National and State governments as well as all private employers incorporated or doing business in the FSM are subject to social security tax. Beginning January 1, 2008, the maximum quarterly taxable wage of $5,000 is subject to an increment of $1,000 and every 5 years thereafter for a maximum of $10,000 until January 1, 2028. Effective October 1, 2010, the tax rate was increased from 6% to 7% (employee 7%, employer 7%) and the maximum quarterly taxable wage threshold increased from $5,000 to $6,000.

Additional revenues are derived from interest and penalties charged to delinquent taxpayers, and other miscellaneous fees.

Budget

The FSM Public Law 5-120 mandates the FSMSSA to present an annual budget not exceeding 11% of its projected income for the ensuing fiscal year. The budget ceiling for fiscal year 2010 based on projected income of $12.37 million was $1.36 million. However, as part of management's cost cutting measures, the budget was streamlined at $1.07 million which is 8.6% of the projected income. The actual administrative costs incurred for FY2010 was $946,950, or 11% surplus compared to the approved budget.

Highlights

- Contributions collected increased by 12.12% from $12.96 million in the previous year to $14.53 million in 2010.
- Total Retirement Fund benefit payments to members or their beneficiaries increased by 7.73% from $15.30 million in 2009 to $16.49 million in 2010.
- 6,348 FSM citizens received Social Security benefits in fiscal year 2010.
- 747 retirement, survivor and disability claims were received, processed, and approved in fiscal year 2010.
- In FY2010, we processed and posted more than $111.7 million reports of earnings to individual records.
- Investment portfolio increased by 1.38% from $36.41 million to $36.91 million.
- Received $1.50 million in funding from the FSM National Government, which was used to supplement benefit payments.
- Retirement Fund net assets totaled $42.36 million on December 31, 2010, compared to $40.74 million in FY2009; an increase of 3.96%.
- Social Security tax rates increased from 6% to 7% (both employee and employer) effective October 01, 2010 as mandated by PL15-73.
- New retirement eligibility became effective January 01, 2011 as mandated by PL15-73 whereby individuals receive 50% of their calculated benefit from age 60 to 64 and 100% from age 65.
- $1.15 million from delinquent accounts were collected in fiscal year 2010.
- Successfully managed to reduce operating costs, resulting in a budget surplus of 11% or $122,103.

RESULTS OF OPERATIONS / CHANGES IN NET ASSETS

FSMSSA follows the calendar year as its fiscal year. The following table presents information about FSMSSA Retirement Fund results of operations for CY2010, 2009 and 2008.

	2010	2009	2008
Contributions	$ 14,525,608	$ 12,955,409	$ 12,488,497
Benefit Payments	(16,488,738)	(15,304,704)	(14,222,788)
Admin Expenses	(946,950)	(961,778)	(989,810)
Other Income, net	1,543,882	1,190,244	394,280
Operating Deficit	(1,366,198)	(2,120,829)	(2,329,821)
Investment Income/(Loss), net	2,981,702	6,149,139	(8,274,430)
Change in Net Assets	1,615,504	4,028,310	(10,604,251)
Net Assets at beginning of year	40,745,566	36,717,256	47,321,507
Net Assets at end of year	$ 42,361,070	$ 40,745,566	$ 36,717,256

Contributions

	2010	2009	2008
Government	$ 6,690,931	$ 6,827,298	$ 6,658,920
Private	7,566,503	5,967,099	5,655,537
Judgment	44,201	14,887	28,099
Penalties and Interest	223,973	146,125	145,941
Total	$ 14,525,608	$ 12,955,409	$ 12,488,497

The total amount of contributions collected was $14.53 million, averaging a collection of $3.63 million per quarter. This is an increase of 12.12% from the previous year's collection of $12.96 million. The increase was attributed mainly to the increase tax rate of 2% (employee 1% and employer 1%) effective October 01, 2010 and to the collection of delinquent accounts from prior years.

Total delinquent taxes collected in 2010 totaled $1.15 million. Of this amount, 56% or $647 thousand pertains to the prior years.

Benefit Payments

	2010	2009	2008
Retirement	$ 10,137,489	$ 9,188,597	$ 8,309,308
Survivors	4,738,969	4,646,298	4,603,842
Disability	1,356,728	1,264,648	1,046,397
Lump Sum	255,552	205,161	263,241
Total	$ 16,488,738	$ 15,304,704	$ 14,222,788

Benefit payments increased by 7.73% from $15.30 million in 2009 to $16.49 million in 2010. The increase was attributed mainly to the increased number of beneficiaries. Six thousand three hundred forty eight (6,348) members or their beneficiaries received benefits in fiscal year 2010. Of this number, seven hundred forty seven new claims were received, processed and approved during the year.

Administrative Expense

	2010	2009	2008
Budget	$ 1,069,053	$ 1,149,058	$ 1,104,132
Actual	$ 946,950	$ 961,778	$ 989,810
Surplus	$ 122,103	$ 187,280	$ 114,322
% of Budget	11%	16%	10%

Administrative expense decreased by 1.54% from $961,778 thousand in 2009 to $946,950 in 2010. There were no items individually material in comparison to the previous year. Management enforced several approaches to reduce the System's operating costs. Continuous monitoring of fuel, telephone and communication, utilities, and supplies and materials were in place to reduce costs. As a result, a budget surplus of 11% or $122,103 was attained this year.

Investment Income / (Loss)

	2010	2009	2008
Investment	$ 36,910,189	$ 36,409,513	$ 31,637,481
Income /(Loss)	$ 2,981,702	$ 6,149,139	$ (8,274,430)
Drawdowns	$ 2,000,000	$ 3,000,000	$ 1,400,000

Investment income decreased by 51.52% from $6.15 million to $2.98 million which is attributed to underperformance of the equity investment. A total sum of $2.0 million was withdrawn from the investment portfolio in fiscal year 2010 in addition to the $1.50 million funding received from the FSM National Government. All of this amount was used to supplement benefit payments in fiscal year 2010.

Other Income

	2010	2009	2008
Approp. from FSM Govt.	$ 1,495,000	$ 1,150,000	$ 250,000
Prior Service Reimbursement	33,834	24,140	103,821
Miscellaneous Receipts	35,112	33,514	59,045
Total	$ 1,563,946	$ 1,207,654	$ 412,866

Other Income increased by 29.50% from $1.21 million in 2009 to $1.56 million in 2010. The increase was attributed mainly to appropriation received from the FSM National Government, which increased 30.0% from $1.15 million in 2009 to $1.50 million in 2010.

NET ASSETS

FSMSSA Retirement Fund Statement of Net Assets as of December 31, 2010, 2009 and 2008 follows:

	2010	2009	2008
Assets			
Cash and equivalents	$ 2,780,258	$ 1,600,034	$ 3,162,579
Investments	36,910,189	36,409,513	31,637,481
Other current assets	2,770,894	2,831,584	1,997,740
Fixed assets, net	77,190	66,491	87,352
Total	42,538,531	40,907,622	36,885,152
Liabilities	177,461	162,056	167,897
Net Assets			
Held in trust for retirement,			
Disability and survivors; benefit	$ 42,361,070	$ 40,745,566	$ 36,717,255

Net assets for the Retirement Fund (excluding the Prior Service Fund) increased 3.96% from $40.74 million in 2009 to $42.36 million in 2010. The increase was attributed mainly to investment gains, which was reduced by operating deficits of $1.37 million during the year.

No material capital asset additions occurred in 2010 and 2009. For additional information concerning capital assets, please refer to note 2F to the financial statements.

The FSMSSA continues to manage the Prior Service Benefits Program for FSM citizens, which is funded by the U.S. Department of the Interior, Office of the Insular Affairs. For FY 2010, total funds received from the Prior Service Trust Fund Administration (PSTFA) amounted to $89,593 while benefits paid and administrative expenses totaled $271,407 and $33,844, respectively.

As of December 31, 2010, the Prior Service Fund had net assets of $43,035. Contributions decreased by 79.87% while benefit payments also decreased by 4.04%.

Following are the Statement of Net Assets as of December 31, 2010, 2009, and 2008 and Statement of Changes in Net Assets for the years ended December 31, 2010, 2009, and 2008 of PSTFA.

Statement of Net Assets
(Prior Service Fund)

	2010	2009	2008
Assets	$ 86,139	$ 295,261	$ 190,998
Liabilities	(43,104)	(37,382)	(71,859)
Net assets	$ 43,035	$ 257,879	$ 119,139

Statement of Changes in Net Assets
(Prior Service Fund)

	2010	2009	2008
PSTFA contributions	$ 89,593	$445,052	$ 519,107
Benefit Payments	(271,407)	(282,835)	(292,964)
Admin expenses	(33,844)	(24,171)	(103,922)
Other	814	694	1,209
Change in net assets	(214,844)	138,740	123,430
Net assets at beginning of year	257,879	119,139	(4,291)
Net assets at end of year	$ 43,035	$ 257,879	$ 119,139

Management's Discussion and Analysis for the year ended December 31, 2009 is set forth in the report on the audit of FSMSSA's financial statements, which is dated June 3, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements and may be obtained from the contact information below.

Conclusion:

Fiscal Year 2010 was another year of achievement for FSMSSA. The Retirement fund net assets for the year ended December 31, 2010 grew to $42.36 million or 3.96% higher compared to the previous year. The slow growth, however, is attributed to the reduction in investment revenue to $2.98 million, net of fees, followed by an operating deficit due to faster growth in benefit payments than collected contributions. Total benefit payments during the year exceeded collected contributions. For this reason, management was compelled to withdraw from the investment portfolio to satisfy payment of all benefits.

One of the major challenges the system is currently facing is to enforce the recovery and collection of outstanding social security taxes from delinquent employers. For fiscal year 2010, we have managed to recover over $1 million in delinquent taxes, which is an achievement considering the slow economic growth in the FSM.

With increased benefit payments of 7.73% and 7.6% respectively for fiscal years 2010 and 2009, and unfunded accrued liability of $232.5M (as of Jan 1, 2009), management endeavors to improve its operation through the following:

1. Collection of delinquent taxes;
2. Spot audits;
3. Conduct periodic eligibility survey of current beneficiaries;
4. Monitor investment performance; and
5. Control administrative expenses.

We would also request supplemental funding from the FSM National Government to help with the weak cash flow as experienced during the past several years due to imbalances between collected contributions and benefit payments including administrative expenses.

2011 Outlook

The increased collection in 2010 is expected to continue over the next 12 month period due to increased tax rate of 2% (employer & employee combined). However, the expected increase could be partially offset by non-compliance of contribution payments from some employers, which was experienced in 2010 despite new mandate imposing criminal penalties to employer offenders of FSM Social Security Act as recently mandated by PL15-73. Having said this, collections from contributions are estimated to be approximately $16.35 million including collection from delinquent accounts.

FSMSSA is forecasting another operating deficit in 2011. While collection is expected to improve due to the tax rate increase, benefit payments are also expected to increase due to additional beneficiaries who will become eligible for benefits. We expect to pay $17.38 million in benefits in 2011.

FSMSSA expects the administrative cost in 2011 to remain approximately equal to the 2010 level, which is by far the lowest in the last 6 years of its operation due to the cost cutting measures implemented by management.

Foregoing, benefit payments will increase faster than collection. It is projected that at least $2.0 million will be needed in additional funding to supplement benefit payments and administrative expenses in 2011. The deficit is anticipated to be funded with cash withdrawals from investments and/or funding from the FSM National Government.

This MD&A is designed to provide our citizens, taxpayers, creditors and other interested parties with a general overview of the FSMSSA's finances and to demonstrate its accountability to funding agencies. Questions concerning any of the information provided in this discussion or requests for information should be addressed to the Administrator, FSM Social Security Administration at P. O. Box L Kolonia, Pohnpei, FSM 96941.

FEDERATED STATES OF MICRONESIA
SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

Statements of Net Assets
December 31, 2010 and 2009

ASSETS	2010	2009
Cash and cash equivalents	$ 2,866,397	$ 1,895,295
Receivables:		
Contributions	2,642,239	1,776,339
Due from FSM National Government	-	900,000
Accrued interest	112,357	130,454
Prior Service Trust Fund	-	2,497
Other	12,698	16,943
Total receivables	2,767,294	2,826,233
Prepayments	3,600	5,351
Investments:		
Fixed income	13,676,610	14,013,363
Stocks	23,233,579	22,396,150
Total investments	36,910,189	36,409,513
Fixed assets, net	77,190	66,491
Total assets	42,624,670	41,202,883
LIABILITIES		
Accounts payable	187,536	168,188
Other liabilities and accruals	24,079	21,885
Accrued management fees	8,950	9,365
Total liabilities	220,565	199,438
Contingencies		
NET ASSETS		
Held in trust for retirement, disability and survivors' benefits	$ 42,404,105	$ 41,003,445

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA
SOCIAL SECURITY ADMINISTRATION
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Statements of Changes in Net Assets
Years Ended December 31, 2010 and 2009

	2010	2009
Additions:		
Contributions	$ 14,525,608	$ 12,955,409
Investment income:		
Net change in the fair value of investments	2,314,631	5,278,838
Interest and dividends	866,970	1,065,538
Total investment income	3,181,601	6,344,376
Less investment expense:		
Investment management and custodial fees	199,085	194,543
Net investment income	2,982,516	6,149,833
Other additions:		
Contributions from FSM National Government	1,495,000	1,150,000
Other	158,539	502,706
	1,653,539	1,652,706
Total additions	19,161,663	20,757,948
Deductions:		
Benefit payments:		
Retirement	10,250,648	9,311,710
Survivors	4,897,217	4,806,020
Disability	1,356,728	1,264,648
Lump sum	255,552	205,161
Total benefit payments	16,760,145	15,587,539
Refunds	20,064	17,410
Administrative	980,794	985,949
Total deductions	17,761,003	16,590,898
Change in net assets	1,400,660	4,167,050
Net assets at beginning of year	41,003,445	36,836,395
Net assets at end of year	$ 42,404,105	$ 41,003,445

See accompanying notes to financial statements.

(1) Organization

The Social Security Administration of the Federated States of Micronesia (FSM) National Government was established by Public Law 2-74, passed on February 8, 1983, and began operations on October 1, 1987, for the purpose of administering the FSM Social Security Retirement Fund (the Retirement Fund) through the provision of retirement, disability and death benefits to qualified individuals and their survivors. The Administration is administered under the authority of a six-member Board of Trustees, five of whom are appointed by the President of the Federated States of Micronesia. The Administrator, who is selected by the Board, serves as an ex-officio member. Additionally, the Administrator is responsible for processing, monitoring and distributing benefit claims under the Prior Service Benefits Program (see note 7). Accordingly, the Administrator established the Prior Service Fund to account for activities under this program.

(2) Summary of Significant Accounting Policies

A. Basis of Accounting

The FSM Social Security Administration (the Administration) is accounted for as a Fiduciary Fund Type - Private Purpose Trust Fund and is a component unit of the FSM National Government. The Administration 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.

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* and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities, which includes the requirement for the Administration to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements. In addition, these statements require that resources be classified for accounting and reporting purposes as held in trust for retirement, disability and survivors' benefits. Management of the Administration has determined that per its enabling legislation, all net assets of the Administration are held in trust for retirement, disability and survivors' benefits.

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 Cash Equivalents

For the purposes of the statements of net assets, cash and cash equivalents include cash on hand, and cash in checking and savings accounts as well as short-term investments in money market funds with a maturity date within three months of the date acquired.

(2) Summary of Significant Accounting Policies, Continued

D. Investments

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

E. Deposits and Investments

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

The deposit and investment policies of the Administration 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 the Administration's investments. Legally authorized investments are as follows:

(i) Government obligations - Obligations issued or guaranteed as to principal and interest by the FSM National Government and/or State governments of the Federated States of Micronesia or by the Government of the United States, 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 Federated States of Micronesia 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, the FSM National Government, or is rated in one of the three highest categories by two nationally recognized rating agencies. No investment under this heading shall exceed ten percent of the market value of the 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 Federated States of Micronesia 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 the Administration's investment advisor at the time of purchase, that not more than five percent of the market value of the Retirement Fund shall be invested in the stock of any one corporation, and that not more than ten 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 Federated States of Micronesia 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 of all investments of the Retirement Fund.

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Deposits:

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

Category 1 Deposits that are federally insured or collateralized with securities held by the Administration or its agent in the Administration's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Administration's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Administration's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Administration'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. The Administration does not have a deposit policy for custodial credit risk.

As of December 31, 2010 and 2009, the carrying amount of the Administration's total cash and cash equivalents was $2,866,397 and $1,895,295, respectively, and the corresponding bank balances were $3,025,893 and $2,126,461, respectively. As of December 31, 2010 and 2009, bank deposits in the amount of $2,076,254 and $1,666,353, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2010 and 2009, bank deposits in the amount of $527,093 and $500,000, respectively, were FDIC insured. The Administration 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. The remaining amounts of $949,579 and $460,108, respectively, represent short-term investments held and administered by the Administration's trustees in accordance with various trust agreements. Based on negotiated trust and custody contracts, all of these investments were held in the Administration's name by the Administration's custodial financial institutions at December 31, 2010 and 2009.

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments:

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

Category 1 Investments that are insured or registered, or securities held by the Administration or its agent in the Administration's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Administration's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Administration's name.

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

As of December 31, 2010 and 2009, investments at fair value are as follows:

	2010	2009
Fixed income securities:		
Domestic fixed income	$ 13,676,610	$ 13,024,950
International fixed income	-	988,413
	13,676,610	14,013,363
Other investments:		
Domestic equities	19,354,905	22,396,150
International equities	3,878,674	-
	$ 36,910,189	$ 36,409,513

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Administrator 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.

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

As of December 31, 2010, the Administration's investments in debt securities were as follows:

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	$ 1,328,904	$ 284,792	$ 1,112,006	$ 726,160	$ 3,451,862
Mortgage and asset-backed securities	-	407,856	-	-	407,856
U.S. Government agencies	-	-	524,031	3,230,033	3,754,064
Corporate notes and bonds	205,320	2,264,456	2,843,668	749,384	6,062,828
	$ 1,534,224	$ 2,957,104	$ 4,479,705	$ 4,705,577	$ 13,676,610

As of December 31, 2009, the Administration's investments in debt securities were as follows:

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	$ 556,150	$ 465,178	$ 19,456	$ 389,402	$ 1,430,186
Mortgage and asset-backed securities	-	-	-	5,513,264	5,513,264
U.S. Government agencies	-	435,371	255,964	-	691,335
Corporate notes and bonds	83,653	2,926,981	2,513,407	854,537	6,378,578
	$ 639,803	$ 3,827,530	$ 2,788,827	$ 6,757,203	$ 14,013,363

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

The Administration's exposure to credit risk at December 31, 2010, was as follows:

Standard and Poors' Rating	Domestic
AAA	$ 7,754,437
AA+	436,986
AA	462,100
AA-	138,734
A+	297,546
A	1,503,804
A-	737,228
BBB+	971,204
BBB	782,073
BBB-	592,498
	$ 13,676,610

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

The Administration's exposure to credit risk at December 31, 2009, was as follows:

Standard and Poors' Rating	Total	Domestic	International
AAA	$ 8,240,469	$ 7,738,952	$ 501,517
AA+	282,146	282,146	-
AA	786,348	786,348	-
AA-	568,936	479,250	89,686
A+	701,131	614,519	86,612
A	2,012,921	1,957,509	55,412
A-	1,099,376	844,190	255,186
BBB+	322,036	322,036	-
	$ 14,013,363	$ 13,024,950	$ 988,413

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Administration will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Administration's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the Administration's name by the Administration's custodial financial institutions at December 31, 2010 and 2009. The Administration's agent is not affiliated with 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 the Administration. 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 December 31, 2010 and 2009.

F. Fixed Assets

The cost of fixed assets, if greater than $250, is capitalized at the time of acquisition. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets.

(2) Summary of Significant Accounting Policies, Continued

F. Fixed Assets, Continued

Capital asset activity for the years ended December 31, 2010 and 2009, was as follows:

	Estimated Useful Lives	January 1, 2010	Additions	Retirements	December 31, 2010
Motor vehicles	5 years	$ 128,158	$ 22,800	$ (45,765)	$105,193
Computer software and hardware	5 years	119,183	4,690	-	123,873
Office furniture, fixtures and equipment	5 years	82,513	6,450	-	88.963
Home furnishings	5 years	3,791	3,517	-	7,308
		333,645	37,457	(45,765)	325,337
Less accumulated depreciation		(267,154)	(26,275)	45,282	(248,147)
		$ 66,491	$ 11,182	$ (483)	$ 77,190

	Estimated Useful Lives	January 1, 2009	Additions	Retirements	December 31, 2009
Motor vehicles	5 years	$ 146,625	$ -	$ (18,467)	$ 128,158
Computer software and hardware	5 years	110,891	8,292	-	119,183
Office furniture, fixtures and equipment	5 years	113,150	3,351	(33,988)	82,513
Home furnishings	5 years	2,846	945	-	3,791
		373,512	12,588	(52,455)	333,645
Less accumulated depreciation		(286,160)	(31,232)	50,238	(267,154)
		$ 87,352	$ (18,644)	$ (2,217)	$ 66,491

G. Contributions

Contributions to the Retirement Fund are governed by the Federated States of Micronesia Social Security Act of 1983, which imposes a tax on the quarterly income of every employee not currently subject to the United States Social Security Administration or any other recognized social security system. There is imposed on the income of every applicable employee a tax equal to six percent of wages received and seven percent of wages commencing October 1, 2010.

Maximum quarterly taxable wages are currently $6,000. Every employer is required to contribute an amount equal to that contributed by employees.

Contribution revenues received during the years ended December 31, 2010 and 2009 are comprised of the following:

	2010	2009
Government employment	$ 6,690,931	$ 6,827,298
Private employment	7,566,503	5,967,099
Judgment	44,201	14,887
Penalties and interest	223,973	146,125
	$ 14,525,608	$ 12,955,409

(2) Summary of Significant Accounting Policies, Continued

H. Benefit Obligations

Retirement benefits are paid to every person who is a fully insured individual as defined by the Federated States of Micronesia Social Security Act, has attained sixty years of age, and has filed an application for old age insurance benefits. Benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements, as long as they do not remarry or work. Eligible children who are not married or are not working may also receive benefits until age eighteen (18) or up to age twenty-two (22) if in school.

Eligible children who become disabled before age twenty-two (22) 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.

Benefits are paid monthly and are computed on an annual basis of 16.5% of the first $10,000 of cumulative covered earnings, plus 3.0% of the next $30,000, 2.0% of any earnings in excess of $40,000, and 1.0% of any earnings in excess of $302,500. As of December 31, 2010 and 2009, the minimum monthly benefit payment is $75.

I. New Accounting Standards

During fiscal year 2010, the Administration implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

(2) Summary of Significant Accounting Policies, Continued

J. New Accounting Standards, Continued

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Administration.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Administration.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Administration.

K. Management Estimates

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

L. Risk Management

The Administration 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. The Administration has elected to purchase automobile and property and casualty insurance from independent third parties for the risks of loss to which it is exposed. The Administration is substantially self-insured for all other risks. Settled claims have not exceeded commercial coverage in any of the past three years.

(3) Net Assets Held in Trust

Net assets are held in trust to comply with the Social Security Act of 1983. All net assets of the Administration are to be used for retirement, disability and survivors' benefits.

(4) Contingencies

The Administration is aware of liabilities of the fund related to retroactive benefit payments for wages not posted to the system due to an unmatched social security number or name provided by the employer, as well as a liability related to overpayment of contributions. Management is unable to determine a reasonable estimate of the abovementioned liabilities at this time; however management is of the opinion that the amount is not material to the financial statements taken as a whole.

In June 2009, the Administration obtained an actuarial valuation of the Retirement Fund as of January 1, 2009. The valuation reported actuarial accrued liabilities for the Retirement Fund of $232,474,000. As of December 31, 2010 and 2009, the Administration recorded total fund equity of $42,361,070 and $40,745,566, respectively, in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that the Administration should not increase future or current benefits until a long-term trend of decreasing the unfunded accrued liability is realized.

(5) Contribution from the FSM National Government

The Administration receives periodic subsidies for its operations from appropriations received from the Congress of the FSM. During the years ended December 31, 2010 and 2009, contributions from the FSM National Government amounted to $1,495,000 and $1,150,000, respectively, of which $0 and $900,000 is receivable from the FSM National Government as of December 31, 2010 and 2009, respectively.

(6) Contributions Receivable

The Administration 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.

(7) Prior Service Claims

Under the terms of a Prior Service Claim Adjudication Service Agreement between the Social Security Administration of the Federated States of Micronesia and the Trust Territory Prior Service Trust Fund, the Administration 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 the Administration $8,000 per annum plus an amount equal to eight percent of the total amount of automated and manual benefit payments. Any cost for the Administration 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.

(7) Prior Service Claims, Continued

On September 15, 2005, an agreement was entered into between the PSTFA Board and the U.S. Department of the Interior to delegate the Board's obligations and responsibility for the enrollees eligible for 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.

The Administration assumed administrative functions and as of December 31, 2010 and 2009, had received an allocation of $89,593 and $445,052, respectively, from PSTFA of which $271,407 and $282,835 were paid as benefits during the years ended December 31, 2010 and 2009, respectively. However, while the Administration accepts the liability for any amounts received, the Administration does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. As of December 31, 2010 and 2009, the amount available for future benefit payments under the Prior Service Benefits Program amounted to $43,035 and $257,879, respectively.

FEDERATED STATES OF MICRONESIA
SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

Combining Statement of Net Assets
December 31, 2010

	Retirement Fund	Prior Service Fund	Total
ASSETS			
Cash and cash equivalents	$ 2,780,258	$ 86,139	$ 2,866,397
Receivables:			
Contributions	2,642,239	-	2,642,239
Accrued interest	112,357	-	112,357
Other	12,698	-	12,698
Total receivables	2,767,294	-	2,767,294
Prepayments	3,600	-	3,600
Investments:			
Fixed income	13,676,610	-	13,676,610
Stocks	23,233,579	-	23,233,579
Total investments	36,910,189	-	36,910,189
Fixed assets, net	77,190	-	77,190
Total assets	42,538,531	86,139	42,624,670
LIABILITIES			
Accounts payable	144,432	43,104	187,536
Other liabilities and accruals	24,079	-	24,079
Accrued management fees	8,950	-	8,950
Total liabilities	177,461	43,104	220,565
NET ASSETS			
Held in trust for retirement, disability and survivors' benefits	$ 42,361,070	$ 43,035	$ 42,404,105

See Accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA
SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

Combining Statement of Changes in Net Assets
Year Ended December 31, 2010

	Retirement Fund	Prior Service Fund	Total
Additions:			
Contributions	$ 14,525,608	$ -	$ 14,525,608
Investment income:			
Net change in the fair value of investments	2,314,631	-	2,314,631
Interest and dividends	866,156	814	866,970
Total investment income	3,180,787	814	3,181,601
Less investment expense:			
Investment management and custodial fees	199,085	-	199,085
Net investment income	2,981,702	814	2,982,516
Other additions:			
Contributions from FSM National Government	1,495,000	-	1,495,000
Other	68,946	89,593	158,539
	1,563,946	89,593	1,653,539
Total additions	19,071,256	90,407	19,161,663
Deductions:			
Benefit payments:			
Retirement	10,137,489	113,159	10,250,648
Survivors	4,738,969	158,248	4,897,217
Disability	1,356,728	-	1,356,728
Lump sum	255,552	-	255,552
Total benefit payments	16,488,738	271,407	16,760,145
Refunds	20,064	-	20,064
Administrative	946,950	33,844	980,794
Total deductions	17,455,752	305,251	17,761,003
Change in net assets	1,615,504	(214,844)	1,400,660
Net assets at beginning of year	40,745,566	257,879	41,003,445
Net assets at end of year	$ 42,361,070	$ 43,035	$ 42,404,105

See Accompanying Independent Auditors' Report.

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

The Board of Trustees
FSM Social Security Administration:

We have audited the financial statements of the Federated States of Micronesia Social Security Administration (the Administration) as of and for the year ended December 31, 2010, and have issued our report thereon dated April 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements that will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Deloitte + Touche LLP

April 27, 2011

Summary Schedule of Prior Year Findings
Year Ended December 31, 2010

There are no prior year findings unresolved as of December 31, 2010.