

**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, 2014 AND 2013

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

Years Ended December 31, 2014 and 2013
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	4
III. BASIC FINANCIAL STATEMENTS:	
Statements of Fiduciary Net Position	11
Statements of Changes in Fiduciary Net Position	12
Notes to Financial Statements	13
IV. OTHER SUPPLEMENTARY INFORMATION	
Combining Statement of Fiduciary Net Position	23
Combining Statement of Changes in Fiduciary Net Position	24
V. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	25
Summary Schedule of Prior Year Findings	27

INDEPENDENT AUDITORS' REPORT

Board of Trustees
FSM Social Security Administration:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, which comprise the statements of fiduciary net position as of December 31, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FSM Social Security Administration as of December 31, 2014 and 2013, and the changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4 to the financial statements, the actual valuation report as of January 1, 2014 showed a total accrued liability of \$307,613,000 and the market value of trust assets of \$49,134,000, resulting in a funded ratio of 16%. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, 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. This supplementary information is the responsibility of the Administration's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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.

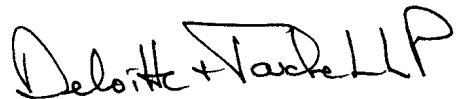
Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Administration's basic financial statements. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of the Administration's management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 auditing standard generally accepted in the United States of America. In our opinion, the Other 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 June 2, 2015, 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 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 the Administration's internal control over financial reporting and compliance.

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

June 2, 2015

**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, 2014 and 2013

The following discussion and analysis provides an understanding of the FSM Social Security Administration's (FSMSSA) financial performance for fiscal year ended December 31, 2014. 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 members and officers of the Board of Trustees are as follows:

Gillian Doone	National Government	Chairman of the Board
Kalwin Kephass	State of Kosrae	Member
Vacant	State of Pohnpei	Member
Nakama Sana	State of Chuuk	Member
Vincent Tafileluw	State of Yap	Vice Chairman
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 7.5% each, or a combined tax rate of 15% paid to the system every quarter. The 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, 2013, the maximum quarterly taxable wage of \$6,000 is subject to an increment of \$1,000 and every 5 years thereafter for a maximum of \$10,000 until January 1, 2028. Effective January 1, 2013, both the tax rate and the maximum quarterly taxable wage have been increased from 7% to 7.5% (employee 7.5%, employer 7.5%) and from \$6,000 to \$7,000, respectively.

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 year 2014 based on projected income of \$16.70 million was \$1.84 million. However, as part of management's cost cutting measures, the budget was streamlined at \$1.27 million which is 7.6% of the projected income. The actual administrative costs incurred for 2014 were \$1.12 million, or a 12% surplus compared to the approved budget.

**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, 2014 and 2013

Highlights

- Contributions collected increased by 2.3% from \$17.24 million in 2013 to \$17.64 million in 2014.
- Total benefit payments to members or their beneficiaries increased by 3% from \$18.43 million in 2013 to \$18.99 million in 2014.
- 6,470 beneficiaries received social security benefits as of end of year 2014.
- 916 retirement, survivor and disability claims were received and processed in year 2014.
- The investment portfolio including marketable securities and money market funds increased by 3.64% from \$43.74 million in 2013 to \$45.33 million in 2014.
- A drawdown of \$1.0 million was made from the investment portfolio to supplement benefit payments.
- Received \$1.0 million in funding from the FSM National Government, which was used to supplement benefit payments.
- Net position totaled \$50.13 million in December 31, 2014, compared to \$48.89 million in December 31, 2013, an increase of 2.54%.
- \$1,103,931 from delinquent accounts were collected in year 2014.
- Close monitoring of expenses led to a budget surplus of 12% in year 2014.
- Received \$294,083 from Prior Service Trust Fund Administration (PSTFA). Prior Service benefits paid in 2014 totaled \$308,195.
- Effective January 1, 2013, the tax rate and maximum taxable wages have been increased from 7% to 7.5% (employee 7.5%, employer 7.5%) and from \$6,000 to \$7,000, respectively.

**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, 2014 and 2013

RESULTS OF OPERATIONS / CHANGES IN NET POSITION

FSMSSA follows the calendar year as its reporting year. The following table presents information about FSMSSA results of operations for CY2014, 2013 and 2012.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contributions	\$ 17,641,983	\$ 17,244,974	\$ 16,371,874
Benefit Payments	(18,985,730)	(18,431,758)	(17,745,448)
Administrative Expenses	(1,121,686)	(1,156,701)	(1,035,997)
Other Income	<u>1,046,328</u>	<u>1,041,065</u>	<u>1,044,444</u>
Operating Deficit	(1,419,105)	(1,302,420)	(1,365,127)
Investment Income/(Loss), net	<u>2,659,510</u>	<u>7,502,456</u>	<u>3,669,947</u>
Change in Net Position	1,240,405	6,200,036	2,304,820
Net Position at beginning of year	<u>48,887,325</u>	<u>42,687,289</u>	<u>40,382,469</u>
Net Position at end of year	\$ <u>50,127,730</u>	\$ <u>48,887,325</u>	\$ <u>42,687,289</u>

Contributions:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Government	\$ 8,650,038	\$ 8,521,409	\$ 7,901,969
Private	8,783,794	8,523,577	8,266,665
Judgment	54,844	12,617	18,854
Penalties & Interests	<u>153,307</u>	<u>187,371</u>	<u>184,386</u>
Total	\$ <u>17,641,983</u>	\$ <u>17,244,974</u>	\$ <u>16,371,874</u>

The total amount of contributions collected was \$17.64 million, averaging a collection of \$4.41 million per quarter. This amount constitutes an increase of 2.3% compared to 2013 at \$17.24 million. The higher collection was attributed mainly to the increased collection of delinquent taxes. Amount collected from delinquent taxes rose to \$1,103,931 in 2014 compared to \$952,959 in 2013.

Benefit Payments:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Retirement	\$ 11,692,921	\$ 11,457,404	\$ 11,038,569
Survivors	5,420,464	5,189,255	5,068,023
Disability	1,502,864	1,523,375	1,456,825
Lump Sum	<u>369,481</u>	<u>261,724</u>	<u>182,031</u>
Total	\$ <u>18,985,730</u>	\$ <u>18,431,758</u>	\$ <u>17,745,448</u>

Benefit payments increased by 3% from \$18.43 million in 2013 to \$18.99 million in 2014. The increase was attributed mainly to new claims received processed and approved during the year. There were 916 new claims received and processed in 2014 as compared to 849 in 2013. As of December 31, 2014, there were 6,470 members or their beneficiaries who received benefits in year 2014.

**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, 2014 and 2013

Administrative Expense:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Budget	\$1,269,455	\$1,255,695	\$1,115,902
Actual	\$1,121,686	\$1,156,701	\$1,035,997
Surplus	\$ 147,769	\$ 98,994	\$ 79,905
% of Budget	12%	8%	7%

Administrative expense decreased by \$35,015 or 3%. Management continuously monitors its operating expenses and implements cost cutting measures resulting in a budget surplus of 12% this year. Part of the surplus was the unused portion of the board expense as a result of the unfilled vacancy for the Pohnpei board member.

Investment Income / (Loss):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Investment	\$ 45,329,658	\$ 43,736,351	\$ 37,206,732
Income / (Loss)	\$ 2,659,510	\$ 7,502,456	\$ 3,669,947
Drawdowns	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000

Investment income decreased by 64.5% to \$2.66 million in 2014 compared to \$7.50 million in 2013. Investment returns in 2013 was at 20% and was so far the highest since the inception of the investment portfolio compared to 2014 investment returns of 6%. The market value of the investment portfolio stood at \$45.33 million as of end of 2014. The amount is net of a \$1.0 million drawdown that was used to supplement benefit payments in addition to the \$1.0 million funding received from the FSM National Government.

Other Income:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Appropriations from FSM Government	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Prior Service Reimbursement	44,486	44,649	47,334
Miscellaneous Receipts	24,864	26,438	31,661
Tax Refunds	<u>(23,022)</u>	<u>(30,022)</u>	<u>(34,551)</u>
Total	\$ 1,046,328	\$ 1,041,065	\$ 1,044,444

Other income increased by \$5,263 or 0.51%. Income received from Prior Service reimbursement was equivalent to 20% of benefits paid. The amount included \$3,900 admin fees for processing the one time cola payment to PS beneficiaries amounting to \$105,400.

Miscellaneous receipts are fees collected from ss cards, employer's ID card, request for allotments and request for change of address.

**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, 2014 and 2013

NET POSITION

FSMSSA Statements of Net Position as of December 31, 2014, 2013 and 2012 follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Cash and equivalents	\$ 2,020,467	\$ 1,931,021	\$ 2,244,250
Investments	45,329,658	43,736,351	37,206,732
Other current assets	2,867,721	3,293,007	3,424,074
Fixed assets, net	<u>81,774</u>	<u>107,152</u>	<u>102,841</u>
Total	50,299,620	49,067,531	42,977,897
Liabilities	<u>171,890</u>	<u>180,206</u>	<u>290,608</u>
Net Position			
Held in trust for retirement, disability and survivors' benefits	\$ <u>50,127,730</u>	\$ <u>48,887,325</u>	\$ <u>42,687,289</u>

Net position for the retirement fund (excluding the Prior Service Fund) increased by 2.54% from \$48.89 million in 2013 to \$50.13 million in 2014. The increase was attributed mainly to the net investment gain as a result of a higher market value of the portfolio as of the end of the year 2014.

The FSMSSA continues to manage the Prior Service Benefits Program for FSM citizens, which is funded by the U.S. Department of Interior, Office of the Insular Affairs. For FY 2014, total funds received from the Prior Service Trust Fund Administration (PSTFA) amounted to \$294,083 while benefits paid and administrative expenses totaled \$308,195 and \$44,522, respectively.

As of December 31, 2014, the Prior Service Fund had net position of \$189,547. Contributions decreased by 18.61% while benefit payments increased by 38.05%. Benefit payments in 2014 included the one-time cola payment of \$105,400.

Capital assets are not material to FSMSSA operations. Additional information concerning capital assets can be found at note 2F to the financial statements.

Following are the Statements of Net Position as of December 31, 2014, 2013, & 2012 and Statements of Changes in Net Position for the years ended December 31, 2014, 2013, & 2012 of PSTFA.

Statements of Net Position (Prior Service fund)			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets	\$ 232,355	\$ 299,712	\$ 196,297
Liabilities	<u>(42,808)</u>	<u>(53,497)</u>	<u>(44,050)</u>
Net position	\$ <u>189,547</u>	\$ <u>246,215</u>	\$ <u>152,247</u>

**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, 2014 and 2013

Statements of Changes in Net Position
(Prior Service Fund)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
PSTFA contributions	\$ 294,083	\$ 361,324	\$ 408,879
Benefit Payments	(308,195)	(223,247)	(236,645)
Administrative expenses	(44,522)	(44,670)	(47,373)
Other	<u>1,966</u>	<u>561</u>	<u>486</u>
Change in net position	(56,668)	93,968	125,347
Net position at beginning of year	<u>246,215</u>	<u>152,247</u>	<u>26,900</u>
Net position at end of year	\$ <u>189,547</u>	\$ <u>246,215</u>	\$ <u>152,247</u>

Conclusion:

The FSMSSA retirement fund net position in 2014 increased by \$1.24 million or 2.54% compared to 2013 mainly due to the increased market value of the investment portfolio. However, the year saw another operating deficit due to imbalances between tax collections and benefit payments including administrative expenses. Total contributions collected were \$17.64 million while benefits paid and administrative expenses totaled \$18.99 million and \$1.12 million, respectively resulting in an operating loss of \$1.42 million. To cover the shortfall, \$1.0 million was withdrawn from the investment portfolio. The FSM National Government also appropriated \$1.0 million to supplement the benefit payments.

The Board of Trustees, and management and staff of the FSMSSA will continue to pursue strategies that will help overcome some of the challenges that the Program faces. In 2014, we have managed to recover \$1,103,931 in delinquent taxes, a major accomplishment considering the slow economic growth in the FSM.

With increased benefit payments of 3% and 3.9% in fiscal years 2014 and 2013 respectively, and an unfunded accrued liability of \$258.5M (as of January 1, 2014), 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 the FSM National Government to continue to extend financial assistance to FSMSSA to supplement its operational shortfall so that investment drawdown could be minimized and investment returns maximized.

**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, 2014 and 2013

2015 Outlook

FSMSSA is projecting another operational loss in 2015 and approximately \$3.5 million will be needed in supplemental funding to fully fund the benefits expected to be paid during the year.

Collections for 2015 are projected to be at the same level as in 2014 since there will be no increases in tax rate and taxable wages until 2018. Any increase in collection, if any, could be partially offset by non-compliance of contribution payments from some employers. Despite new mandate imposing criminal penalties to employer offenders of FSM Social Security Act as mandated by PL15-73, there are still some employers who are non-compliance. Currently, the total taxes due from active delinquent employers totaled \$1,498,331. Of this amount, \$346,610 is under judgment accounts. Management will continue to remain focus on increasing collections from delinquent accounts and to make employers pay their current quarterly tax dues by ongoing spot audits that will include most of the employers in all of the FSM States. Having said this, collections from contributions are estimated to be approximately \$17.6 million including collection from delinquent accounts.

Benefit payments will continue to increase in 2015 because of new claims that will be received, processed and approved during the year. Based on the yearly average increase of benefit payments during the past 2 years, it is projected that benefits in 2015 will be around \$19.65 million or an increase of 3.5% compared to 2014.

Administrative cost is projected to be lower if not approximately equal compared to 2014. Management will continue to implement the cost cutting measures being practiced during the past several years.

Foregoing, benefit payments will increase faster than collection. It is projected that approximately \$3.5 million will be needed in additional funding to supplement benefit payments and administrative expenses in 2015. The deficit is anticipated to be funded with cash withdrawal from investment 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.

Management's Discussion and Analysis for the year ended December 31, 2013 is set forth in the Administration's report on the audit of financial statements, which is dated May 26, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

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

Statements of Fiduciary Net Position
December 31, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 2,252,822	\$ 2,229,804
Receivables:		
Contributions	2,773,881	2,679,938
Due from FSM National Government	-	500,000
Accrued interest	87,032	92,317
Other	5,008	18,081
Total receivables	<u>2,865,921</u>	<u>3,290,336</u>
Prepayments	<u>1,800</u>	<u>3,600</u>
Investments:		
Fixed income	14,691,607	13,657,716
Stocks	30,638,051	30,078,635
Total investments	<u>45,329,658</u>	<u>43,736,351</u>
Depreciable fixed assets, net	<u>81,774</u>	<u>107,152</u>
Total assets	<u>50,531,975</u>	<u>49,367,243</u>
<u>LIABILITIES</u>		
Accounts payable	183,277	199,212
Other liabilities and accruals	25,380	25,638
Accrued management fees	6,041	8,853
Total liabilities	<u>214,698</u>	<u>233,703</u>
Contingencies		
<u>NET POSITION</u>		
Held in trust for retirement, disability and survivors' benefits	<u>\$ 50,317,277</u>	<u>\$ 49,133,540</u>

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Additions:		
Contributions	\$ 17,641,983	\$ 17,244,974
Investment income:		
Net change in the fair value of investments	2,025,184	6,922,493
Interest and dividends	<u>869,992</u>	<u>833,310</u>
Total investment income	2,895,176	7,755,803
Less investment expense:		
Investment management and custodial fees	<u>(235,249)</u>	<u>(252,786)</u>
Net investment income	<u>2,659,927</u>	<u>7,503,017</u>
Other additions:		
Contributions from FSM National Government	1,000,000	1,000,000
Other	<u>364,982</u>	<u>432,411</u>
	<u>1,364,982</u>	<u>1,432,411</u>
Total additions	<u>21,666,892</u>	<u>26,180,402</u>
Deductions:		
Benefit payments:		
Retirement	11,799,765	11,544,359
Survivors	5,621,815	5,325,547
Disability	1,502,864	1,523,375
Lump sum	<u>369,481</u>	<u>261,724</u>
Total benefit payments	19,293,925	18,655,005
Refunds	23,022	30,022
Administrative	<u>1,166,208</u>	<u>1,201,371</u>
Total deductions	<u>20,483,155</u>	<u>19,886,398</u>
Change in net position	1,183,737	6,294,004
Net position at beginning of year	<u>49,133,540</u>	<u>42,839,536</u>
Net position at end of year	<u>\$ 50,317,277</u>	<u>\$ 49,133,540</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
December 31, 2014 and 2013

(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 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 6). 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, net position of the Administration is all 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 fiduciary net position, 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.

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

Notes to Financial Statements
December 31, 2014 and 2013

(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

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 Fund shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of the 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 Fund.

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

Notes to Financial Statements
December 31, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Deposits:

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, 2014 and 2013, the carrying amount of the Administration's total cash and cash equivalents was \$2,252,822 and \$2,229,804, respectively, and the corresponding bank balances were \$2,453,786 and \$2,569,851, respectively. As of December 31, 2014 and 2013, bank deposits in the amount of \$1,025,975 and \$1,201,127, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2014 and 2013, bank deposits in the amount of \$500,000 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 \$1,428,711 and \$1,368,724, 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, 2014 and 2013.

Investments:

As of December 31, 2014 and 2013, investments at fair value are as follows:

	<u>2014</u>	<u>2013</u>
Fixed income securities:		
Domestic fixed income	\$ 14,691,607	\$ 13,657,716
Other investments:		
Domestic equities	23,837,368	22,725,474
International equities	<u>6,800,683</u>	<u>7,353,161</u>
	<u>\$ 45,329,658</u>	<u>\$ 43,736,351</u>

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.

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

Notes to Financial Statements
December 31, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued

As of December 31, 2014, the Administration's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>					
	Less				Greater	Fair
	<u>Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Than 10</u>	<u>Value</u>	
U.S. Treasury obligations	\$ 799,955	\$ 2,383,408	\$ 2,956,927	\$ 231,116	\$ 6,371,406	
Mortgage and asset-backed securities	80,970	1,680,070	274,369	2,121,031	4,156,440	
Municipal bonds	-	64,694	-	-	64,694	
Corporate notes and bonds	<u>68,723</u>	<u>1,251,433</u>	<u>1,775,426</u>	<u>1,003,485</u>	<u>4,099,067</u>	
	<u>\$ 949,648</u>	<u>\$ 5,379,605</u>	<u>\$ 5,006,722</u>	<u>\$ 3,355,632</u>	<u>\$ 14,691,607</u>	

As of December 31, 2013, the Administration's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>					
	Less				Greater	Fair
	<u>Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Than 10</u>	<u>Value</u>	
U.S. Treasury obligations	\$ 1,354,756	\$ 1,002,134	\$ 936,283	\$ -	\$ 3,293,173	
Mortgage and asset-backed securities	-	1,795,352	194,743	2,715,849	4,705,944	
Municipal bonds	-	63,609	-	-	63,609	
Corporate notes and bonds	<u>-</u>	<u>1,510,572</u>	<u>2,802,937</u>	<u>1,281,481</u>	<u>5,594,990</u>	
	<u>\$ 1,354,756</u>	<u>\$ 4,371,667</u>	<u>\$ 3,933,963</u>	<u>\$ 3,997,330</u>	<u>\$ 13,657,716</u>	

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, 2014, was as follows:

<u>Standard and Poors' Rating</u>	<u>Domestic</u>
AAA	\$ 5,879,962
AA+	1,427,579
AA	44,248
AA-	450,832
A+	88,409
A	382,361
A-	940,121
BBB+	448,352
BB+	86,236
BBB	1,198,371
BBB-	344,685
Not rated	<u>3,400,451</u>
	<u>\$ 14,691,607</u>

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

Notes to Financial Statements
December 31, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

The Administration's exposure to credit risk at December 31, 2013, was as follows:

<u>Standard and Poors' Rating</u>	<u>Domestic</u>
AAA	\$ 3,293,173
AA+	4,878,596
AA	40,959
AA-	306,774
A+	140,872
A	740,799
A-	2,015,550
BBB+	599,072
BB+	26,713
BBB	1,085,080
BBB-	413,092
Not rated	<u>117,036</u>
	<u>\$ 13,657,716</u>

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, 2014 and 2013. 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, 2014 and 2013.

F. Depreciable 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.

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

Notes to Financial Statements
December 31, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

F. Depreciable Fixed Assets, Continued

Capital asset activity for the years ended December 31, 2014 and 2013, was as follows:

	<u>Estimated Useful Lives</u>	January 1, <u>2014</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2014</u>
Motor vehicles	5 years	\$ 111,026	\$ 8,205	\$ (5,825)	\$ 113,406
Computer software and hardware	5 years	136,270	5,955	(11,324)	130,901
Office furniture, fixtures and equipment	5 years	103,595	1,232	-	104,827
Home furnishings	5 years	<u>5,996</u>	<u>-</u>	<u>-</u>	<u>5,996</u>
		356,887	15,392	(17,149)	355,130
Less accumulated depreciation		<u>(249,735)</u>	<u>(38,908)</u>	<u>15,287</u>	<u>(273,356)</u>
		<u>\$ 107,152</u>	<u>\$ (23,516)</u>	<u>\$ (1,862)</u>	<u>\$ 81,774</u>

	<u>Estimated Useful Lives</u>	January 1, <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2013</u>
Motor vehicles	5 years	\$ 107,880	\$ 7,025	\$ (3,879)	\$ 111,026
Computer software and hardware	5 years	158,262	17,003	(13,850)	161,415
Office furniture, fixtures and equipment	5 years	68,157	12,707	(5,203)	75,661
Home furnishings	5 years	<u>6,738</u>	<u>2,047</u>	<u>-</u>	<u>8,785</u>
		341,037	38,782	(22,932)	356,887
Less accumulated depreciation		<u>(238,196)</u>	<u>(34,471)</u>	<u>22,932</u>	<u>(249,735)</u>
		<u>\$ 102,841</u>	<u>\$ 4,311</u>	<u>\$ -</u>	<u>\$ 107,152</u>

G. Deferred Outflows of Resources

In addition to assets, the statements of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources 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. The Administration has no items that qualify for reporting in this category.

H. 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, deferred inflows of resources 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. The Administration has no items that qualify for reporting in this category.

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

Notes to Financial Statements
December 31, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

I. Contributions

Contributions to the Fund are governed by the Federated States of Micronesia Social Security Act of 1983 (the "Act"), 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 7.5% of wages effective January 1, 2013.

Maximum quarterly taxable wages are currently \$7,000 effective January 1, 2013. Every employer is required to contribute an amount equal to that contributed by employees.

Contribution revenues recorded during the years ended December 31, 2014 and 2013 are comprised of the following:

	<u>2014</u>	<u>2013</u>
Government employment	\$ 8,650,038	\$ 8,521,408
Private employment	8,783,794	8,523,577
Judgments	54,844	12,617
Penalties and interest	<u>153,307</u>	<u>187,372</u>
	<u>\$ 17,641,983</u>	<u>\$ 17,244,974</u>

J. Benefit Obligations

Benefits are paid to every person who is a fully insured individual as defined by the 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% of the next \$30,000, 2% of any earnings in excess of \$40,000, and 1% of any earnings in excess of \$302,500. As of December 31, 2014 and 2013, the minimum monthly benefit payment is \$100.

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

Notes to Financial Statements
December 31, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

K. New Accounting Standards

During the year ended December 31, 2014, the Administration implemented the following pronouncements:

- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Administration.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Administration.

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

Notes to Financial Statements
December 31, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

L. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) require 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.

M. 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 Position Held in Trust

Net position is held in trust to comply with the Social Security Act of 1983. All net position of the Administration is 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 unmatched social security numbers or names provided by employers, as well as liabilities 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 as a whole.

In January 2014, the Administration obtained an actuarial valuation of the Fund as of January 1, 2014. The valuation reported actuarial accrued liabilities for the Fund of \$307,613,000 and a funded ratio of 16%. As of December 31, 2014 and 2013, the Administration recorded total fund equity of \$50,127,730 and \$48,887,325, respectively, in the 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.

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.

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

Notes to Financial Statements
December 31, 2014 and 2013

(5) Contributions from 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, 2014 and 2013, contributions from the FSM National Government amounted to \$1,000,000 for each year, of which \$0 and \$500,000 is recorded as a receivable from the FSM National Government as of December 31, 2014 and 2013, respectively.

(6) 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.

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, 2014 and 2013, had received an allocation of \$295,632 and \$361,324, respectively, from PSTFA of which \$308,195 and \$223,247 were paid as benefits during the years ended December 31, 2014 and 2013, 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, 2014 and 2013, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$189,547 and \$246,215, respectively.

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

Combining Statement of Fiduciary Net Position
December 31, 2014

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,020,467	\$ 232,355	\$ 2,252,822
Receivables:			
Contributions	2,773,881	-	2,773,881
Due from FSM National Government	-	-	-
Accrued interest	87,032	-	87,032
Other	5,008	-	5,008
Total receivables	<u>2,865,921</u>	<u>-</u>	<u>2,865,921</u>
Prepayments	<u>1,800</u>	<u>-</u>	<u>1,800</u>
Investments:			
Fixed income	14,691,607	-	14,691,607
Stocks	<u>30,638,051</u>	<u>-</u>	<u>30,638,051</u>
Total investments	<u>45,329,658</u>	<u>-</u>	<u>45,329,658</u>
Depreciable fixed assets, net	<u>81,774</u>	<u>-</u>	<u>81,774</u>
Total assets	<u>50,299,620</u>	<u>232,355</u>	<u>50,531,975</u>
<u>LIABILITIES</u>			
Accounts payable	140,469	42,808	183,277
Other liabilities and accruals	25,380	-	25,380
Accrued management fees	<u>6,041</u>	<u>-</u>	<u>6,041</u>
Total liabilities	<u>171,890</u>	<u>42,808</u>	<u>214,698</u>
<u>NET POSITION</u>			
Held in trust for retirement, disability and survivors' benefits	<u>\$ 50,127,730</u>	<u>\$ 189,547</u>	<u>\$ 50,317,277</u>

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 Fiduciary Net Position
Year Ended December 31, 2014

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total</u>
Additions:			
Contributions	\$ 17,641,983	\$ -	\$ 17,641,983
Investment income:			
Net change in the fair value of investments	2,025,184	-	2,025,184
Interest and dividends	869,575	417	869,992
Total investment income	2,894,759	417	2,895,176
Less investment expense:			
Investment management and custodial fees	(235,249)	-	(235,249)
Net investment income	2,659,510	417	2,659,927
Other additions:			
Contributions from FSM National Government	1,000,000	-	1,000,000
Other	69,350	295,632	364,982
	<u>1,069,350</u>	<u>295,632</u>	<u>1,364,982</u>
Total additions	<u>21,370,843</u>	<u>296,049</u>	<u>21,666,892</u>
Deductions:			
Benefit payments:			
Retirement	11,692,921	106,844	11,799,765
Survivors	5,420,464	201,351	5,621,815
Disability	1,502,864	-	1,502,864
Lump sum	369,481	-	369,481
Total benefit payments	18,985,730	308,195	19,293,925
Refunds	23,022	-	23,022
Administrative	1,121,686	44,522	1,166,208
Total deductions	<u>20,130,438</u>	<u>352,717</u>	<u>20,483,155</u>
Change in net position	1,240,405	(56,668)	1,183,737
Net position at beginning of year	48,887,325	246,215	49,133,540
Net position at end of year	<u>\$ 50,127,730</u>	<u>\$ 189,547</u>	<u>\$ 50,317,277</u>

See Accompanying Independent Auditors' Report.

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

The Board of Trustees
FSM 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 Federated States of Micronesia Social Security Administration (the Administration), which comprise the statement of fiduciary net position as of December 31, 2014, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 2, 2015.

Internal Control Over Financial Reporting

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

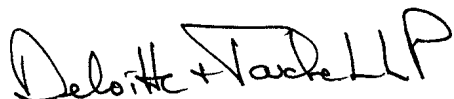
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

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.

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

June 2, 2015

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

Summary Schedule of Prior Year Findings
Year Ended December 31, 2014

There are no prior year findings unresolved as of December 31, 2014.