Financial Statements, Additional Information, and Compliance and Internal Control

Federated States of Micronesia Social Security Administration

(A Component Unit of the Federated States of Micronesia National Government)

Year ended December 31, 2022
with Report of Independent Auditors

Building a better working world

Federated States of Micronesia Social Security Administration
(A Component Unit of the Federated States of Micronesia National Government)

Year Ended December 31, 2022

Contents

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Report of Independent Auditors

Board of Trustees
FSM Social Security Administration

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Administration as of December 31, 2022, and the changes in its net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Administration's ability to continue as a going concern for a reasonable period of time.

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

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 5 through 11 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Principal Valuation Results on page 31 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management. The information has not been subjected to the auditing procedures applied in our audits of the financial statements and, accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Administration's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Administration's internal control over financial reporting and compliance.

Ernst + Young LLP

April 15, 2024

The following discussion and analysis provides an understanding of the Federated States of Micronesia (FSM) Social Security Administration's (FSMSSA) financial performance for fiscal years ended December 31, 2022 and 2021. 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 FSM 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 FSM.

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:

Jack Harris	State of Pohnpei	Chairman of the Board
Vincent Tafileluw	State of Yap	Vice Chairman
Vacant	National Government	Member
Vacant	State of Chuuk	Member
Nena Ned	State of Kosrae	Member
Leon Panuelo, Jr.	Administrator	Member, Exofficio

The Administrator, who is selected by the Board, is responsible for daily operations 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 FSM National and State governments as well as all private employers incorporated or doing business in the FSM are subject to social security tax. Effective January 1, 2023, the maximum quarterly taxable wage has been increased to $9,000 from $8,000 during the 5-year period January 1, 2018 to December 31, 2022.

As provided in the law, maximum taxable wage base is subject to an increase of $1,000 every 5 years for a maximum of $10,000 until January 1, 2028.

Additional revenues are derived from interests 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 2022 based on projected income of $20.0 million was $2.2 million. However, as part of management's cost cutting measures, the budget was reduced to $1.4 million, which is 7% of the projected income. The actual administrative costs incurred for 2022 was $1.1 million, or 19% surplus compared to the approved budget.

Highlights

- Contributions collected increased by $359,252 or 1.7% to $21 million in 2022 compared to $20.7 million in 2021. The increased amount was attributed mainly to government contributions.

- Benefit payments to Retirement Fund members or their beneficiaries increased by $816,863 or 3.6% to $23.7 million in 2022 compared to $22.9 million in 2021. Retirement benefits increased by 5.4% compared to 2021 mainly due to the new law allowing 65-year-old beneficiaries to continue to receive 50% of their monthly benefit while still working.

- 6,641 beneficiaries received social security benefits as of end of year 2022.

- 647 retirement, survivor and disability claims were received, and processed. To date, 601 have been approved.

- The investment portfolio, including marketable securities and money market funds classified as part of cash and cash equivalents, underperformed in 2022 with a total market value of $45.5 million as of December 31, 2022, down by 22% compared $58.5 million in 2021. Net investment loss was recorded at $10.6 million, an 18.5% negative return.

- Received $1.0 million in funding from the FSM National Government which was used to supplement benefit payments. Additional funding worth $2 million was received in May 2023 to help with the cash outflow due to influx of benefit claim arising from the new law allowing 65 year old beneficiaries to receive benefits while still working.

- Retirement Fund net position totaled $50.1 million as of December 31, 2022 compared to $63.4 million as of December 31, 2021, a decline of 21%.

- $503,980 from delinquent accounts were collected in year 2022. Some delinquent employers remain non-compliant and will not pay their delinquent accounts. For this reason, more of these employers are being referred to legal counsel. As of first quarter 2023, $1.1 million delinquent accounts are with court judgment.

- Close monitoring of expenses led to a budget surplus of 19% in year 2022.

Highlights, continued

- Received $105,010 from Prior Service Trust Fund Administration (PSTFA). Prior Service benefits paid in 2022 totaled $172,086. In October 2022, a 3% COLA was applied to all benefits.

- Effective January 1, 2023, the maximum quarterly taxable wages has been increased from $8,000 to $9,000 which will be in effect for the next five years until December 31, 2027.

RESULTS OF OPERATIONS / CHANGES IN NET POSITION

FSMSSA follows the calendar year as its reporting year. The following table presents information about FSMSSA Retirement Fund results of operations for the years December 31, 2022, and 2021 and does not include the Prior Service Trust Fund Administration which together represent FSMSSA total fiduciary operations:

	2022	2021
Contributions	$21,036,307	$20,677,055
Benefit payments	(23,687,080)	(22,870,217)
Administrative expenses	(1,133,903)	(1,061,285)
Other income, net	1,048,659	1,049,172
Operating deficit	(2,736,017)	(2,205,275)
Investment income, net	(10,594,096)	7,354,945
Change in net position	(13,330,113)	5,149,670
Net position at beginning of year	63,423,153	58,273,483
Net position at end of year	$50,093,040	$63,423,153

Contributions:

	2022	2021
Government	$11,123,796	$10,688,015
Private	9,756,454	9,789,408
Judgment	7,609	9,177
Penalties and Interests	148,448	190,455
Total	$21,036,307	$20,677,055

Contributions collected increased by $359,252 or 1.7% to $21 million in 2022 compared to $20.7 million in 2021, averaging a collection of $5.3 million per quarter. The increase in collections was attributed mainly to government contribution.

Benefit payments:

	2022	2021
Retirement	$15,936,930	$15,119,207
Survivors	5,786,647	5,864,220
Disability	1,694,980	1,737,900
Lump Sum	268,523	148,890
Total	$23,687,080	$22,870,217

Benefit payments, continued:

Benefit payments increased by $816,863 or 3.6% to $23.7 million in 2022 compared to $22.9 million in 2021. Retirement benefits increased by $817,723 or 5.4% compared to 2021. This was attributed mainly to the new law allowing 65-year-old beneficiaries to continue to receive 50% of their monthly benefit while still working.

Administrative expenses:

	2022	2021
Budget	$1,394,512	$1,350,557
Actual	$1,133,903	$1,061,285
Surplus	$260,609	$289,272
% of Budget	19%	21%

Administrative expense increased by $72,618 or 7% to $1.1 million in 2022 compared to $1 million in 2021. Most expense items remain fairly stable, if not lower, as management continuously monitors its operating expenses.

Investment (loss) income:

	2022	2021
Investments	$ 45,524,888	$58,521,403
(Loss) Income	$ (10,594,096)	$7,355,016
Drawdown	$2,400,000	$3,000,000

During the years ended December 31, 2022 and 2021, included in the Investments is cash amounting to $593,051 and $1,130,037, respectively.

The investment trust fund including marketable securities underperformed in 2022 and sustained a $10.6 million net loss compared to $7.4 million net gain in 2021. A drawdown of $2.4 million was also made during the year to supplement benefit payments.

Other income:

	2022	2021
Appropriations from FSMNG	$1,000,000	$1,000,000
Prior service reimbursement	34,860	39,158
Miscellaneous receipts	22,352	30,908
Tax refunds	(8,553)	(20,894)
Total	$1,048,659	$1,049,172

Other income, continued:

Other income slightly decreased by $513 to $1,048,659 in 2022 compared to $1,049,172 in 2021. Income received from Prior Service reimbursement was equivalent to 20% of Prior Service benefits paid. Miscellaneous receipts are fees collected from Social Security cards, employer's ID card, request for allotments and request for change of address.

NET POSITIONS

	2022	2021
Assets		
Cash and equivalents	$ 1,934,755	$ 2,125,654
Investments	44,931,837	57,391,365
Other current assets	3,182,857	3,945,730
Fixed assets, net	117,788	47,420
Total assets	50,167,237	63,510,169
Liabilities	74,197	87,016
Net Position		
Held in trust for retirement, disability and survivor's benefits	$50,093,040	$63,423,153

Net position for the Retirement Fund (excluding the Prior Service Fund) decreased by $13.3 million or 21% to $50.1 million in 2022 from $63.4 million in 2021. The decrease in net position was attributed mainly to the underperformance of the investment trust fund assets with market value recorded at $45.5 million including marketable securities as of December 31, 2022. Net investment loss during the year was registered at $10.6 million or 18.5% negative return.

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 Insular Affairs. For FY 2022, total funds received from the Prior Service Trust Fund Administration (PSTFA) amounted to $105,010 while benefits paid and administrative expense totaled $172,086 and $34,880, respectively. A 3% cola was applied to all benefits in October 2022.

As of December 31, 2022, the Prior Service Fund had a net position of $103,636. Contributions decreased by 65% while benefit payments also decreased by 11%.

Following are the Statements of Net Position as of December 31, 2022 and 2021 and the Statements of Changes in Net Position for the years ended December 31, 2022 and 2021 of PSTFA:

Statement of Net Position
(Prior Service Fund)

	2022	2021
Assets	$120,362	$208,582
Liabilities	(16,726)	(3,308)
Net Position	$103,636	$205,274

Statement of Changes in Net Position
(Prior Service Fund)

	2022	2021
PSTFA contributions	$105,010	$302,402
Benefit payments	(172,086)	(193,015)
Administrative expenses	(34,880)	(39,213)
Other	318	71
Change in net position	(101,638)	70,245
Net position at beginning of year	205,274	135,029
Net position at end of year	$103,636	$205,274

Conclusion:

The FSMSSA Retirement Fund net position in 2022 decreased by $13.3 million or 21% mainly due to underperformance of the investment trust fund assets with investment loss recorded at $10.6 million, an 18.5% negative return. The year also saw another operational deficit due to imbalances of tax collections and benefit payments including administrative expense.

Total contributions collected amounted to $21 million while benefits paid and administrative expense totaled $23.7 million and $1.1 million, respectively for a cash shortfall of $3.8 million. The shortfall was funded by subsidy received from the FSM National Government in the amount of $1 million and from investment drawdown of $2.4 million.

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 2022, we managed to recover $503,980 in delinquent taxes, a major accomplishment considering the slow economic growth in the FSM.

With increasing benefit payments and unfunded accrued liability of $304.4M (as of Jan 1, 2020), 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.
6. Amendments to Social Security Act

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.

Management’s Discussion and Analysis for the year ended December 31, 2021 is set forth in the Administration’s report on the audit of financial statements, which is dated August 18, 2022. That Discussion and Analysis explains the major factors impacting the 2021 financial statements and can be viewed at the Office of the Public Auditor’s website at www.fsmopa.fm.

CY2023 Financial Condition

CY2023 closed out with better results than CY2022. Net position increased by 12% to $56.2 million as compared to CY2022's $50.1 million, mainly due to outperformance of the investment trust fund with its net gain of $7.5 million representing 16.8% returns. However, as in the past, benefits grew faster than collections. Benefit payments during the year totaled $25.5 million while collections amounted to $25.4 million including the $2.5 million subsidy received from the FSM NG. To settle the cash deficit including administrative cost of $1.3 million, it was necessary to drawdown $1.5 million from the investment trust fund.

CY2024 Outlook

FSMSSA is projecting another operational loss in 2024 and approximately $4 million will be needed in supplemental funding to fully fund the benefits expected to be paid during the year.

Collection for 2024 is projected to grow 7% as a result of salary increases recently approved for Pohnpei State personnel. However, the positive outlook in collection could be offset by higher benefit payments estimated to grow by the same rate of 7.6% in 2023.

Management will continue to remain focused on increasing collection 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 $24.7 million including collection from delinquent accounts.

Benefits will continue to increase in 2024 because of new claims that will be received, processed and approved during the year. Total benefit payments projected for 2024 is $27.4 million.

Administrative cost is projected to be lower if not approximately equal to 2023. Management will continue to implement the cost cutting measures being practiced for the past several years.

Foregoing, benefit payments will increase faster than collections. It is projected that approximately $4 million will be needed in additional funding to supplement benefit payments and administrative expenses in 2024. The deficit is anticipated to be funded with drawdown from the trust fund and/or subsidy from the FSM National Government.

Contacting FSMSSA Executives

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 request 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)

Statement of Fiduciary Net Position

December 31, 2022

Assets	
Cash and cash equivalents	$ 2,054,810
Receivables:	
Contributions	3,161,133
Other	22,031
Total receivables	3,183,164
Investments:	
Fixed income	16,867,090
Equity and others	28,064,747
Total investments	44,931,837
Capital assets, net	117,788
Total assets	$50,287,599
Liabilities	
Accounts payable	$ 58,598
Other liabilities and accruals	32,325
Total liabilities	90,923
Net Position	
Held in trust for retirement, disability and survivors' benefits	50,196,676
Total liabilities and net position	$50,287,599

See accompanying notes.

Federated States of Micronesia Social Security Administration
(A Component Unit of the Federated States of Micronesia National Government)

Statement of Changes in Fiduciary Net Position

Year ended December 31, 2022

Additions:	
Contributions	$ 21,036,307
Investment loss:	
Net change in the fair value of investments	(10,318,682)
Interest and dividends	318
Total investment loss	(10,318,364)
Investment expense:	
Investment management and custodial fees	(275,414)
Net investment loss	(10,593,778)
Other additions:	
Contributions from FSM National Government	1,000,000
Other	162,222
	1,162,222
Total additions	11,604,751
Deductions:	
Benefit payments:	
Retirement	15,979,574
Survivors	5,916,089
Disability	1,694,980
Lump sum	268,523
Total benefit payments	23,859,166
Refunds	8,553
Administrative expenses	1,168,783
Total deductions	25,036,502
Change in fiduciary net position	(13,431,751)
Net position at beginning of year	63,628,427
Net position at end of year	$ 50,196,676

See accompanying notes.

1. Organization

The Federated States of Micronesia (FSM) Social Security Administration (the Administration) 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 7). Accordingly, the Administrator established the Prior Service Fund to account for activities under this program.

2. Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures, and GASB Statement No. 61, The Financial Reporting: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, 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 to be held in trust for retirement, disability and survivors' benefits.

Basis of Accounting

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.

2. Summary of Significant Accounting Policies, continued

Accounting Estimates

The preparation of financial statements in accordance 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.

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.

Cash and Cash Equivalents

For the purposes of the statement 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.

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.

2. Summary of Significant Accounting Policies, continued

Deposits and Investments, continued

(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.

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, 2022, the carrying amount of the Administration's total cash and cash equivalents was $2,054,810, and the corresponding bank balances were $2,345,436, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance or coverage by Securities Investor Protection Corporation (SIPC). As of December 31, 2022, bank deposits in the amount of and $750,000, were FDIC insured. As of December 31, 2022, bank deposits in the amount of $343,051, were subject to SIPC insurance coverage. 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.

2. Summary of Significant Accounting Policies, continued

Deposits and Investments, continued

Investments

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

As of December 31, 2022, investments are as follows:

Fixed income securities:	
Domestic fixed income	$16,867,090
Other investments:	
Domestic equities	10,009,254
International equities	8,497,026
Exchange traded funds	6,054,523
Real estate investment trust and tangibles	3,503,944
	$44,931,837

The Administration categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of December 31, 2022, all investments are quoted in active markets.

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.

As of December 31, 2022, the Administration's investments in fixed income securities were as follows:

	Investment Maturities (In Years)			
	1 to 5	6 to 10	Greater Than 10	Total
U.S. Treasury and agencies obligations	$1,503,840	$2,027,442	$ 1,780,522	$ 5,311,804
Mortgage and asset-backed securities	---	50,359	8,556,307	8,606,666
Corporate notes and bonds	336,509	2,612,111	---	2,948,620
	$1,840,349	$4,689,912	$10,336,829	$16,867,090

2. Summary of Significant Accounting Policies, continued

Deposits and Investments, continued

Investments, continued

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 in domestic fixed income securities as of December 31, 2022, were as follows:

Standard and Poors' Rating

AAA/AAA	$ 5,311,803
A1/A-	663,847
A1/BBB+	451,166
A2/A-	704,772
A2/BBB+	219,223
A3/A-	351,007
A3/BBB+	558,604
Not rated	8,606,668
	$16,867,090

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 as of December 31, 2022. 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 *Deposits and Investment Risk Disclosures* requires disclosure by issuer and amounts 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, 2022.

2. Summary of Significant Accounting Policies, continued

Depreciable Capital Assets

The cost of capital 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.

Capital asset activities for the year ended December 31, 2022, were as follows:

	Estimated Useful Lives	January 1, 2022	Additions	Retirements	December 31, 2022
Motor vehicles	5 years	$ 72,394	$ 81,185	$(35,685)	$117,894
Office furniture, fixtures and equipment	5 years	110,667	9,564	(4,224)	116,007
Computer software and hardware	5 years	93,674	16,916	(16,364)	94,226
Home furnishings	5 years	420	---	---	420
		277,155	107,665	(56,273)	328,547
Less accumulated depreciation		(229,735)	(34,338)	53,314	(210,759)
		$ 47,420	$ 73,327	$(2,959)	$ 117,788

Depreciation expense for the year ended December 31, 2022 amounted to $34,338 and is included as a component of administrative expenses in the accompanying statement of changes in fiduciary net position.

Deferred Outflows of Resources

In addition to assets, the statements of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and 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.

Deferred Inflows of Resources

In addition to liabilities, the statements of fiduciary net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and 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.

2. Summary of Significant Accounting Policies, continued

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 tax imposed on the income of every applicable employee equal to 7.5% of wages, effective January 1, 2013. Maximum quarterly taxable wages are $8,000 effective January 1, 2018, $9,000 effective January 1, 2023, and $10,000 effective January 1, 2028. Every employer is required to contribute an amount equal to that contributed by employees.

Contribution revenues recorded during the year ended December 31, 2022 are comprised of the following:

Government employment	$11,123,796
Private employment	9,756,455
Judgments	7,609
Penalties and interest	148,447
	$21,036,307

Contribution receivables at December 31, 2022 are as follows:

Social security tax contributions	$ 3,138,278
Beneficiaries	15,442
Others	7,413
	$ 3,161,133

2. Summary of Significant Accounting Policies, continued

Benefit Obligations

Benefits are paid to fully insured individual. As defined by the Act, every person who has attained sixty-five (65) or sixty (60) years of age if decided to receive 50% of benefits 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 the age of 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 but not in excess of the next $262,500, and 1% of any earnings in excess of $302,500. As of December 31, 2022, the minimum monthly benefit payment is $100.

Recently Adopted Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 during the year ended December 31, 2022 did not result in a material effect on the accompanying financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. The adoption of GASB Statement No. 91 during the year ended December 31, 2022 did not have an effect on the accompanying financial statements.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 during the year ended December 31, 2022 did not have an effect on the accompanying financial statements.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (a) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The adoption of GASB Statement No. 97 during the year ended December 31, 2022 did not have an effect on the accompanying financial statements.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. The adoption of GASB Statement No. 98 during the year ended December 31, 2022 did not have an effect on the accompanying financial statements.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:

- Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, as amended.

- Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets.

- Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit.

- Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended*, related to the focus of the government-wide financial statements.

- Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.*

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021.

These provisions of GASB Statement No. 99 were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. GASB Statement No. 94 will be effective for fiscal year ending December 31, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending December 31, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022,* which include guidance that are effective for future periods:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending December 31, 2024.

- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending December 31, 2024.

- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending December 31, 2023.

- Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending December 31, 2023.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending December 31, 2023.

- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending December 31, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 101 will be effective for fiscal year ending December 31, 2023.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending December 31, 2024.

The Administration is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

2. Summary of Significant Accounting Policies, continued

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

Benefit Payments

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 and as such, record such retroactive benefit payments in the period where benefits are determined and become payable.

Litigation

The Administration is periodically a defendant in legal actions inherent to the nature of its operations. Management is of the opinion that resolution of any matters existing as of December 31, 2022 will not have a material effect on the accompanying financial statements.

5. Commitments

The Administration leases office spaces in each of its four locations with leases expiring through 2028.

Future minimum lease payments are as follows:

Year Ending December 31,	
2023	$ 59,491
2024	64,418
2025	58,418
2026	24,855
2027	12,255
Thereafter	6,128
	$225,565

6. Contributions from FSM National Government

The Administration receives periodic appropriations from the Congress of the FSM to subsidize monthly benefit payments. For the year ended December 31, 2022, contributions received from the FSM National Government were $1,000,000.

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.

On September 15, 2005, an agreement was entered 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.

7. Prior Service Claims, continued

The Administration assumed administrative functions and for the year ended December 31, 2022, received an allocation of $105,010 from PSTFA and is included as a component of other additions in the accompanying statement of changes in fiduciary net position. Total benefit and administrative expense for the year ended December 31, 2022 amounted to $206,966, is included as a component of benefit payments and administrative expenses in the accompanying statement of changes in fiduciary net position. 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, 2022, the amount available for future benefit payments under the Prior Service Benefits Program amounted to $103,636.

8. Retirement Plan

The Administration has established a defined contribution retirement savings plan (the Plan) for its employees administered by a private corporation. All contract employees and other permanent employees with at least three months of service are eligible to participate in the Plan. Employee contributions can be made up to 100% of earnings. Employees have the option of electing to receive matching contribution or based contribution, which are both discretionary and subject to change by the Administration on a plan year basis. The Administration's Administrator is the designated plan administrator. During the year ended December 31, 2022, the Administration incurred an expense of $11,490, for matching contributions. As of December 31, 2022, total plan assets were $124,956. Management is of the opinion that the retirement plan assets do not constitute assets of the Administration.

Supplementary Information

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, 2022

	Retirement Fund	Prior Service Fund	Total
Assets			
Cash and cash equivalents	$ 1,934,755	$120,055	$ 2,054,810
Receivables:			
Contributions	3,161,133	---	3,161,133
Other	21,724	307	22,031
Total receivables	3,182,857	307	3,183,164
Investments:			
Fixed income	16,867,090	---	16,867,090
Equity and others	28,064,747	---	28,064,747
Total investments	44,931,837	---	44,931,837
Capital assets, net	117,788	---	117,788
Total assets	$50,167,237	$120,362	$50,287,599
Liabilities			
Accounts payable	$ 41,872	$ 16,726	$ 58,598
Other liabilities and accruals	32,325	---	32,325
Total liabilities	74,197	16,726	90,923
Net Position			
Held in trust for retirement, disability and Survivor' benefits	50,093,040	103,636	50,196,676
	$50,167,237	$120,362	$50,287,599

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, 2022

	Retirement Fund	Prior Service Fund	Total
Additions:			
Contributions	$21,036,307	$ ---	$21,036,307
Investment loss:			
Net change in the fair value of investments	(10,318,682)	---	(10,318,682)
Interest and dividends	---	318	318
Total investment loss	(10,318,682)	318	(10,318,364)
Less investment expense:			
Investment management and custodial fees	(275,414)	---	(275,414)
Net investment loss	(10,594,096)	318	(10,593,778)
Other additions:			
Contributions from FSM National Government	1,000,000	---	1,000,000
Other	57,212	105,010	162,222
	1,057,212	105,010	1,162,222
Total additions	11,499,423	105,328	11,604,751
Deductions:			
Benefit payments:			
Retirement	15,936,930	42,644	15,979,574
Survivors	5,786,647	129,442	5,916,089
Disability	1,694,980	---	1,694,980
Lump sum	268,523	---	268,523
Total benefit payments	23,687,080	172,086	23,859,166
Refunds	8,553	---	8,553
Administrative	1,133,903	34,880	1,168,783
Total deductions	24,829,536	206,966	25,036,502
Change in fiduciary net position	(13,330,113)	(101,638)	(13,431,751)
Net position at beginning of year	63,423,153	205,274	63,628,427
Net position at end of year	$50,093,040	$103,636	$50,196,676

Other Supplementary Information

Federated States of Micronesia Social Security Administration
(A Component Unit of the Federated States of Micronesia National Government)

Principal Valuation Results

Year ended December 31, 2022

By Public Law, the Administration is required to obtain independent actuarial valuation of the Fund every three years. The following table represents key information of the two most recent valuations.

Membership	**January 1, 2020**	**January 1, 2017**	**% Chg**
Active Membership			
Number of members	16,142	15,582	3.6
Total payroll	$138,563,826	$129,779,290	6.8
Average age	40.2	40.0	(0.5)
Average service	9.8	10.4	(5.8)
Inactive Members, Fully Insured			
Number of inactive members	3,917	3,738	4.8
Average age	58.2	56.2	3.5
Average annual benefit	$ 3,350	$ 3,216	4.2
Inactive Members Receiving Benefit Payments			
Number of retirees / beneficiaries	6,697	6,473	3.5
Average age	63.0	61.4	2.6
Average annual benefit	$ 3,227	$ 2,958	9.1
Assets and Liabilities			
Net assets			
Market Value (MVA)	$ 55,427,000	$ 50,672,000	9.4
Accrued Liability (AL)			
Retirees, Disabled Members and Spouses	$166,629,000	$150,496,000	10.7
Inactive, Fully Insured Members	60,896,000	53,210,000	14.4
Active Members	132,347,000	132,703,000	(0.3)
Total	$359,872,000	$336,409,000	7.0
Unfunded Accrued Liability	$304,445,000	$285,737,000	6.5
Funded Ratio			
MVA/AL	15.4%	15.1%	2.0

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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 (*Government Audit Standards*), the financial statements of the Federated States of Micronesia Social Security Administration (the Administration), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements (collectively referred to as the "financial statements"), and have issued our report thereon dated April 15, 2024.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001 that we consider to be a significant deficiency.

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

The Administration's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Administration's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Administration's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

Ernst + Young LLP

April 15, 2024

Finding No. 2022-001 – Biennial Certification or Questionnaire for Determination of Beneficiaries' Eligibility

Criteria: The Administration has an informal policy of requiring certification or questionnaire signed by the beneficiaries as part of determining beneficiaries' eligibility. The Administration may ask for evidence to determine whether beneficiaries are eligible for benefits after they become entitled and are receiving benefits.

Condition: The Administration has not sent biennial certifications or questionnaires to beneficiaries to update beneficiaries' eligibility status since 2017. No formal documentation of the procedures to support determination of beneficiaries' eligibility was on file.

Cause: The cause of this condition is primarily due to no formal policy in regard to eligibility determination, the absence of related procedures and review and the lack of adequate filing and document maintenance systems.

Effect: The effect of this condition is an inability to substantiate certain financial statement balances and financial statement transactions.

Recommendation: We recommend that the Administration establish formal policies regarding determination of eligibility status of beneficiaries, implement those procedures and maintain adequate documentation to support legitimacy of benefit payments.

Prior Year Status: Recommendation concerning management establishing formal policies regarding determination of eligibility status of beneficiaries was reported as a finding in the audit of the Administration for fiscal year 2021.

Auditee Response and Corrective Action Plan: The biennial certification/questionnaire is but one of the many control measures set up by administration to mitigate the risk of paying benefits to beneficiaries who have ceased eligibilities. Some of these measures are: hiring of investigation officers whose major functions include collection of overpayments and ensure that overpayments are returned. These investigation officers investigate any matters relating to continued benefit eligibility; the administration also conducts earnings test every quarter to determine any beneficiaries who have returned to work. In addition, there are written policies, procedures and directives in place with regards to distribution of benefit checks and handling of unclaimed checks. Furthermore, systems application to stop the benefits of surviving children once they have reached 18 years of age is in place. These policies, procedures, directives, and system applications are part of administration's internal control procedures that have been strictly followed on an ongoing process.

We scheduled the biennial certification/questionnaire last year; however, due to sudden resignation of our claim officer, we have to postpone it. As soon as the new Claim Officer is hired, the administration will conduct the survey, tentatively scheduled in August 2024.

Unresolved Prior Year Findings

December 31, 2022

The status of unresolved prior year findings is discussed in the Schedule of Findings and Responses section of this report.