

**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, 2015 AND 2014

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

Years Ended December 31, 2015 and 2014
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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, 2015 and 2014, 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, 2015 and 2014, 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.

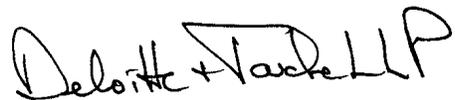
Other Information

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 13, 2016, 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 + Touche LLP". The signature is written in a cursive, stylized font.

June 13, 2016

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Management's Discussion and Analysis
Years Ended December 31, 2015 and 2014

The following discussion and analysis provides an understanding of the FSM Social Security Administration's (FSMSSA) financial performance for fiscal year ended December 31, 2015. 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 the successor 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 in 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:

Nakama Sana	State of Chuuk	Chairman of the Board
Vincent Tafileluw	State of Yap	Vice Chairman
Mathew Chigiyal	National Government	Member
Jack Harris	State of Pohnpei	Member
Kalwin Kephas	State of Kosrae	Member
Alexander R. Narruhn	Administrator	Member, Exofficio

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 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 administrative cost budget not exceeding 11% of its projected income for the ensuing fiscal year. The budget ceiling for year 2015 based on projected income of \$16.80 million was \$1.85 million. However, as part of management's cost cutting measures, the budget was streamlined at \$1.28 million which is 7.6% of the projected income. The actual administrative costs incurred for 2015 was \$1.21million, or 5% surplus compared to the approved budget.

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Management's Discussion and Analysis
Years Ended December 31, 2015 and 2014

Highlights

The following are highlights of the Retirement Fund's operations, excluding the prior service fund which is also administered by FSMSSA.

- Contributions collected slightly decreased by \$17,988 or 0.10% from \$17.64 million in 2014 to \$17.62 million in 2015 mainly due to lower collection on delinquent accounts. Faced with the challenge, management will continue to pursue delinquent employers through litigation process to compel payments.
- Total benefit payments to members or their beneficiaries increased by 1.3% from \$18.99 million in 2014 to \$19.24 million in 2015. Benefits will continue to increase every year as wage earners or their dependents become eligible for benefits.
- 6,422 beneficiaries received social security benefits as of end of year 2015.
- 870 retirement, survivor and disability claims were received and processed in year 2015.
- The investment portfolio including marketable securities decreased by 5% from \$45.33 million in 2014 to \$43.01 million in 2015 due to lower investment returns brought about by global economic problems in particular the devaluation of the Chinese Yuan. Moreover, \$2.5 million was drawn down from the investment trust fund to supplement benefit payments. To maximize investment returns, the trust fund was rebalanced and invested in additional asset classes in 2015.
- Received \$2.0 million in funding from the FSM National Government which was used to supplement benefit payments.
- Net position totaled \$49.82 million in December 31, 2015, compared to \$50.13 million in December 31, 2014, a decrease of 0.6%.
- \$891,567 of delinquent accounts were collected in year 2015. 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 counsels.
- Close monitoring of expenses led to a budget surplus of 5% in year 2015.
- Received \$228,000 from Prior Service Trust Fund Administration (PSTFA). Prior Service benefits paid in 2015 totaled \$183,851.
- 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.

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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 CY2015, 2014 and 2013.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contributions	\$ 17,623,995	\$ 17,641,983	\$ 17,244,974
Benefit Payments	(19,240,090)	(18,985,730)	(18,431,758)
Administrative Expenses	(1,208,146)	(1,121,686)	(1,156,701)
Other Income	<u>2,047,029</u>	<u>1,046,328</u>	<u>1,041,065</u>
Operating Deficit	(777,212)	(1,419,105)	(1,302,420)
Investment Income/(Loss), net	<u>469,997</u>	<u>2,659,510</u>	<u>7,502,456</u>
Change in Net Position	(307,215)	1,240,405	6,200,036
Net Position at beginning of year	<u>50,127,730</u>	<u>48,887,325</u>	<u>42,687,289</u>
Net Position at end of year	<u>\$ 49,820,515</u>	<u>\$ 50,127,730</u>	<u>\$ 48,887,325</u>

Contributions:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Government	\$ 8,670,218	\$ 8,650,038	\$ 8,521,409
Private	8,789,853	8,783,794	8,523,577
Judgment	7,285	54,844	12,617
Penalties & Interests	<u>156,639</u>	<u>153,307</u>	<u>187,371</u>
Total	<u>\$ 17,623,995</u>	<u>\$ 17,641,983</u>	<u>\$ 17,244,974</u>

The total amount of contributions collected slightly decreased to \$17.62 million in 2015, averaging a collection of \$4.41 million per quarter. This amount constitutes a decrease of 0.10% compared to 2014 at \$17.64 million. Contributory to lower collection this year was from low collection of delinquent accounts which declined 19% from \$1,103,931 in 2014 to \$891,567 in 2015.

Benefit Payments:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Retirement	\$ 12,024,918	\$ 11,692,921	\$ 11,457,404
Survivors	5,381,314	5,420,464	5,189,255
Disability	1,514,583	1,502,864	1,523,375
Lump Sum	<u>319,275</u>	<u>369,481</u>	<u>261,724</u>
Total	<u>\$ 19,240,090</u>	<u>\$ 18,985,730</u>	<u>\$ 18,431,758</u>

Benefit payments increased by 1.34% from \$18.98 million in 2014 to \$19.24 million in 2015. The increase was attributed mainly to new claims received processed and approved during the year. There were 870 new claims received and processed in 2015 as compared to 916 in 2014. The percentage increase in benefit payments was lower due to the survey conducted in August, September and November. Beneficiaries who have not submitted their questionnaire were put on hold and did not receive benefits. As of December 31, 2015, there were 6,422 members or their beneficiaries who received benefits, 420 of whom were on hold by end of year pending receipt of questionnaire.

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Administrative Expense:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Budget	\$1,275,598	\$1,269,455	\$1,255,695
Actual	\$1,208,146	\$1,121,686	\$1,156,701
Surplus	\$ 67,452	\$ 147,769	\$ 98,994
% of Budget	5%	12%	8%

Administrative expense increased by \$86,460 or 8% mainly due to higher personnel cost as a result of filling up the vacant positions from 2014. However, other expense items remain fairly stable if not lower as management continuously monitors its operating expenses. This year's budget surplus was 5%.

Investment Income / (Loss):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Investment	\$43,005,195	\$45,329,658	\$43,736,351
Income/(Loss)	\$ 469,997	\$ 2,659,510	\$ 7,502,456
Drawdowns	\$ 2,500,000	\$ 1,000,000	\$ 1,000,000

Investment income decreased by 82.3% to \$469,997 compared to \$2.6 million in 2014. The market value of the investment portfolio stood at \$43.0 million as of end of 2015. The amount is net of \$2.5 million drawdown that was used to supplement benefit payments in addition to the \$2.0 million funding received from the FSM National Government, \$1.0 million of which were collected in 2015.

Other Income:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Appropriation from FSM NG	\$ 2,000,000	\$ 1,000,000	\$ 1,000,000
Prior Service Reimbursement	36,770	44,486	44,649
Miscellaneous Receipts	30,312	24,864	26,438
Tax Refunds	<u>(20,053)</u>	<u>(23,022)</u>	<u>(30,022)</u>
Total	\$ 2,047,029	\$ 1,046,328	\$ 1,041,065

Other income increased by \$1.0 million or 96% mainly due to increased appropriation from the FSM National Government from \$1.0 million in 2014 to \$2.0 million in 2015. Income received from Prior Service reimbursement was equivalent to 20% of Prior Service benefits paid. Miscellaneous receipts are fees collected from ss cards, employer's ID card, request for allotments and request for change of address.

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NET POSITION

FSMSSA Retirement Fund Statements of Net Position as of December 31, 2015, 2014 and 2013 follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets			
Cash and equivalents	\$ 2,922,069	\$ 2,020,467	\$ 1,931,021
Investments	43,005,195	45,329,658	43,736,351
Other current assets	3,953,009	2,867,721	3,293,007
Fixed assets, net	99,865	81,774	107,152
Total	<u>49,980,138</u>	<u>50,299,620</u>	<u>49,067,531</u>
Liabilities	<u>159,623</u>	<u>171,890</u>	<u>180,206</u>
Net Position			
Held in trust for retirement, disability and survivors' benefits	<u>\$ 49,820,515</u>	<u>\$ 50,127,730</u>	<u>\$ 48,887,325</u>

Net position for the retirement fund (excluding the Prior Service Fund) decreased by 0.6% from \$50.13 million in 2014 to \$49.82 million in 2015. Coupled with lower collection, investment returns were also lower at 1.2% compared to 6.0% in 2014. The Program also drawdown \$2.5 million from the trust fund to supplement benefit payments.

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 2015, total funds received from the Prior Service Trust Fund Administration (PSTFA) amounted to \$228,000 while benefits paid and administrative expenses totaled \$183,851 and \$37,140, respectively.

As of December 31, 2015, the Prior Service Fund had a net position of \$197,688. Contributions decreased by 22% while benefit payments also decreased by 40%.

Following are the Statements of Net Position as of December 31, 2015, 2014, & 2013 and the Statements of Changes in Net Position for the years ended December 31, 2015, 2014, & 2013 of PSTFA

Statements of Net Position
(Prior Service Fund)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets	\$ 243,971	\$ 232,355	\$ 299,712
Liabilities	<u>(46,283)</u>	<u>(42,808)</u>	<u>(53,497)</u>
Net Position	<u>\$ 197,688</u>	<u>\$ 189,547</u>	<u>\$ 246,215</u>

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Management's Discussion and Analysis
Years Ended December 31, 2015 and 2014

Statements of Changes in Net Position
(Prior Service Fund)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
PSTFA contributions	\$ 228,767	\$ 294,083	\$ 361,324
Benefit payments	(183,851)	(308,195)	(223,247)
Administrative expense	(37,140)	(44,522)	(44,670)
Other	<u>365</u>	<u>1,966</u>	<u>561</u>
Change in net position	8,141	(56,668)	93,968
Net position at beginning of year	<u>189,547</u>	<u>246,215</u>	<u>152,247</u>
Net position at end of year	\$ <u>197,688</u>	\$ <u>189,547</u>	\$ <u>246,215</u>

Conclusion:

The FSMSSA retirement fund net position in 2015 slightly decreased to \$49.82 million from \$50.13 million in 2014. The year saw another operational deficit due to imbalances of tax collections and benefit payments including administrative expense. Total contributions collected amounted to \$17.62 million while benefits paid and administrative expenses totaled \$19.24 million and \$1.21 million, respectively. To cover the shortfall, \$2.5 million was withdrawn from the investment trust fund. The FSM National Government also appropriated \$2.0 million, \$1.0 million of which was collected during the year.

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 2015, we managed to recover \$891,567 of delinquent taxes, a major accomplishment considering the slow economic growth in the FSM.

With increased benefit payments of 1.3% and 3.0% in fiscal years 2015 and 2014 respectively, and an unfunded accrued liability of \$258.5M (as of Jan 1, 2014), management endeavors to improve its operation through the following:

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

We would also request that the FSM National Government continue to extend financial assistance to FSMSSA to supplement its operational shortfall so that investment drawdowns may be minimized and investment returns maximized.

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Management's Discussion and Analysis
Years Ended December 31, 2015 and 2014

2016 Outlook

FSMSSA is projecting another operational loss in 2016 and approximately \$3.0 million will be needed in supplemental funding to fully fund the benefits expected to be paid during the year.

Collections for 2016 are projected to be at the same level as in 2015 since there will be no increases in tax rate and taxable wages until 2018. An increase in collections, if any, could be partially offset by non-compliance of contribution payments from some employers. Despite a new mandate imposing criminal penalties on employer offenders of the FSM Social Security Act as mandated by PL15-73, there are still some employers who are non-compliant. Currently, total taxes due from active delinquent employers totaled \$1,853,509. Of this amount, \$588,424 is under judgment accounts. Management will continue to remain focused 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 collections of delinquent accounts.

Benefit payments will continue to increase in 2016 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 2016 will approximate \$19.82 million or an increase of 3.0% compared to 2015.

Administrative cost is projected to be lower if not approximately equal to 2015. Management will continue to implement cost cutting measures practiced during the past several years.

Based on the foregoing, benefit payments will increase faster than collections. It is projected that approximately \$3.0 million will be needed in additional funding to supplement benefit payments and administrative expenses in 2016. The deficit is anticipated to be funded by cash withdrawals from investments and/or funding from the FSM National Government.

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

Management's Discussion and Analysis for the year ended December 31, 2014 is set forth in the Administration's report on the audit of financial statements, which is dated June 2, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

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Statements of Fiduciary Net Position
December 31, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 3,165,615	\$ 2,252,822
Receivables:		
Contributions	2,943,789	2,773,881
Due from FSM National Government	1,000,000	-
Accrued interest	-	87,032
Other	7,895	5,008
Total receivables	<u>3,951,684</u>	<u>2,865,921</u>
Prepayments	<u>1,750</u>	<u>1,800</u>
Investments:		
Fixed income	14,694,669	14,691,607
Stocks	28,310,526	30,638,051
Total investments	<u>43,005,195</u>	<u>45,329,658</u>
Depreciable fixed assets, net	<u>99,865</u>	<u>81,774</u>
Total assets	<u>50,224,109</u>	<u>50,531,975</u>
 <u>LIABILITIES</u> 		
Accounts payable	176,412	183,277
Other liabilities and accruals	29,494	25,380
Accrued management fees	-	6,041
Total liabilities	<u>205,906</u>	<u>214,698</u>
Contingencies		
 <u>NET POSITION</u> 		
Held in trust for retirement, disability and survivors' benefits	<u>\$ 50,018,203</u>	<u>\$ 50,317,277</u>

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2015 and 2014

	2015	2014
Additions:		
Contributions	\$ 17,623,995	\$ 17,641,983
Investment income:		
Net change in the fair value of investments	(328,309)	2,025,184
Interest and dividends	1,038,314	869,992
Total investment income	710,005	2,895,176
Less investment expense:		
Investment management and custodial fees	(239,643)	(235,249)
Net investment income	470,362	2,659,927
Other additions:		
Contributions from FSM National Government	2,000,000	1,000,000
Other	295,849	364,982
	2,295,849	1,364,982
Total additions	20,390,206	21,666,892
Deductions:		
Benefit payments:		
Retirement	12,086,658	11,799,765
Survivors	5,503,425	5,621,815
Disability	1,514,583	1,502,864
Lump sum	319,275	369,481
Total benefit payments	19,423,941	19,293,925
Refunds	20,053	23,022
Administrative	1,245,286	1,166,208
Total deductions	20,689,280	20,483,155
Change in net position	(299,074)	1,183,737
Net position at beginning of year	50,317,277	49,133,540
Net position at end of year	\$ 50,018,203	\$ 50,317,277

See accompanying notes to financial statements.

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Notes to Financial Statements
December 31, 2015 and 2014

(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.

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(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.

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(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, 2015 and 2014, the carrying amount of the Administration's total cash and cash equivalents was \$3,165,615 and \$2,252,822, respectively, and the corresponding bank balances were \$3,481,277 and \$2,453,786, respectively. As of December 31, 2015 and 2014, bank deposits in the amount of \$1,680,184 and \$1,025,975, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2015 and 2014, 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 \$1,801,093 and \$1,428,711, 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, 2015 and 2014.

Investments:

As of December 31, 2015 and 2014, investments at fair value are as follows:

	<u>2015</u>	<u>2014</u>
Fixed income securities:		
Domestic fixed income	\$ 14,694,669	\$ 14,691,607
Other investments:		
Domestic equities	20,262,132	23,837,368
International equities	<u>8,048,394</u>	<u>6,800,683</u>
	<u>\$ 43,005,195</u>	<u>\$ 45,329,658</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.

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(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued

As of December 31, 2015, the Administration's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>				
	Less <u>Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	Greater <u>Than 10</u>	Fair <u>Value</u>
U.S. Treasury obligations	\$ -	\$ 2,834,877	\$ 4,816,196	\$ 337,089	\$ 7,988,162
Mortgage and asset-backed securities	-	567,776	200,754	2,178,945	2,947,475
Corporate notes and bonds	<u>181,237</u>	<u>1,474,130</u>	<u>1,135,622</u>	<u>968,043</u>	<u>3,759,032</u>
	<u>\$ 181,237</u>	<u>\$ 4,876,783</u>	<u>\$ 6,152,572</u>	<u>\$ 3,484,077</u>	<u>\$ 14,694,669</u>

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

	<u>Investment Maturities (In Years)</u>				
	Less <u>Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	Greater <u>Than 10</u>	Fair <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>

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, 2015, was as follows:

<u>Standard and Poors' Rating</u>	<u>Domestic</u>
AAA	\$ 7,971,255
AA+	471,184
AA	41,315
AA-	130,592
A+	116,073
A	540,495
A-	350,857
BBB+	1,255,730
BB+	23,700
BBB	952,316
BBB-	197,866
Not rated	<u>2,643,286</u>
	<u>\$ 14,694,669</u>

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(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

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>

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, 2015 and 2014. 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, 2015 and 2014.

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.

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(2) Summary of Significant Accounting Policies, Continued

F. Depreciable Fixed Assets, Continued

Capital asset activity for the years ended December 31, 2015 and 2014, was as follows:

	<u>Estimated Useful Lives</u>	January 1, <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2015</u>
Motor vehicles	5 years	\$ 113,406	\$ 28,374	\$ (29,595)	\$ 112,185
Computer software and hardware	5 years	130,901	12,017	-	142,918
Office furniture, fixtures and equipment	5 years	104,827	12,853	(6,764)	110,916
Home furnishings	5 years	<u>5,996</u>	<u>945</u>	<u>-</u>	<u>6,941</u>
		355,130	54,189	(36,359)	372,960
Less accumulated depreciation		<u>(273,356)</u>	<u>(36,098)</u>	<u>36,359</u>	<u>(273,095)</u>
		\$ <u>81,774</u>	\$ <u>18,091</u>	\$ <u>-</u>	\$ <u>99,865</u>

	<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>

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.

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(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, 2015 and 2014 are comprised of the following:

	<u>2015</u>	<u>2014</u>
Government employment	\$ 8,670,218	\$ 8,650,038
Private employment	8,789,853	8,783,794
Judgments	7,285	54,844
Penalties and interest	<u>156,639</u>	<u>153,307</u>
	<u>\$ 17,623,995</u>	<u>\$ 17,641,983</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, 2015 and 2014, the minimum monthly benefit payment is \$100.

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(2) Summary of Significant Accounting Policies, Continued

K. New Accounting Standards

During the year ended December 31, 2015, the Administration implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the Administration's financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Administration's financial statements.

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(2) Summary of Significant Accounting Policies, Continued, Continued

K. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Administration's financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the Administration's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the Administration's financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the Administration's financial statements.

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.

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(2) Summary of Significant Accounting Policies, Continued

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.

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, 2015 and 2014 will not have a material effect on the accompanying financial statements.

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, 2015 and 2014, the Administration recorded total fund equity of \$49,820,515 and \$50,127,730, 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.

(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, 2015 and 2014, contributions from the FSM National Government amounted to \$2,000,000 and \$1,000,000, respectively, of which \$1,000,000 is recorded as a receivable from the FSM National Government as of December 31, 2015.

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(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, 2015 and 2014, had received an allocation of \$228,767 and \$295,632, respectively, from PSTFA of which \$183,851 and \$308,195 were paid as benefits during the years ended December 31, 2015 and 2014, 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, 2015 and 2014, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$197,688 and \$189,547, respectively.

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Combining Statement of Fiduciary Net Position
December 31, 2015

	Retirement Fund	Prior Service Fund	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,922,069	\$ 243,546	\$ 3,165,615
Receivables:			
Contributions	2,943,789	-	2,943,789
Due from FSM National Government	1,000,000	-	1,000,000
Other	7,470	425	7,895
Total receivables	3,951,259	425	3,951,684
Prepayments	1,750	-	1,750
Investments:			
Fixed income	14,694,669	-	14,694,669
Stocks	28,310,526	-	28,310,526
Total investments	43,005,195	-	43,005,195
Depreciable fixed assets, net	99,865	-	99,865
Total assets	49,980,138	243,971	50,224,109
<u>LIABILITIES</u>			
Accounts payable	130,129	46,283	176,412
Other liabilities and accruals	29,494	-	29,494
Total liabilities	159,623	46,283	205,906
<u>NET POSITION</u>			
Held in trust for retirement, disability and survivors' benefits	\$ 49,820,515	\$ 197,688	\$ 50,018,203

See Accompanying Independent Auditors' Report.

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Combining Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2015

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total</u>
Additions:			
Contributions	\$ 17,623,995	\$ -	\$ 17,623,995
Investment income:			
Net change in the fair value of investments	(328,309)	-	(328,309)
Interest and dividends	<u>1,037,949</u>	<u>365</u>	<u>1,038,314</u>
Total investment income	709,640	365	710,005
Less investment expense:			
Investment management and custodial fees	<u>(239,643)</u>	<u>-</u>	<u>(239,643)</u>
Net investment income	<u>469,997</u>	<u>365</u>	<u>470,362</u>
Other additions:			
Contributions from FSM National Government	2,000,000	-	2,000,000
Other	<u>67,082</u>	<u>228,767</u>	<u>295,849</u>
	<u>2,067,082</u>	<u>228,767</u>	<u>2,295,849</u>
Total additions	<u>20,161,074</u>	<u>229,132</u>	<u>20,390,206</u>
Deductions:			
Benefit payments:			
Retirement	12,024,918	61,740	12,086,658
Survivors	5,381,314	122,111	5,503,425
Disability	1,514,583	-	1,514,583
Lump sum	<u>319,275</u>	<u>-</u>	<u>319,275</u>
Total benefit payments	19,240,090	183,851	19,423,941
Refunds	20,053	-	20,053
Administrative	<u>1,208,146</u>	<u>37,140</u>	<u>1,245,286</u>
Total deductions	<u>20,468,289</u>	<u>220,991</u>	<u>20,689,280</u>
Change in net position	(307,215)	8,141	(299,074)
Net position at beginning of year	<u>50,127,730</u>	<u>189,547</u>	<u>50,317,277</u>
Net position at end of year	<u>\$ 49,820,515</u>	<u>\$ 197,688</u>	<u>\$ 50,018,203</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, 2015, 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 13, 2016.

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.

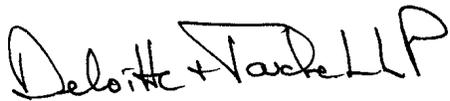
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 13, 2016

**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, 2015

There are no prior year findings unresolved as of December 31, 2015.