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, 2016 AND 2015

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

Years Ended December 31, 2016 and 2015
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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, 2016 and 2015, 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.

Deloitte.

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, 2016 and 2015, 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 Matters

Implementation of New Accounting Standards

As discussed in Note 2 to the financial statements, the Administration adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective January 1, 2015.

Uncertainty Regarding Funded Ratio

As discussed in Note 4 to the financial statements, the actual valuation report as of January 1, 2014 reported 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 these matters.

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 financial statements. Such information, although not a part of the financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the 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 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements. Such 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 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 Other Supplementary Information is fairly stated, in all material respects, in relation to the 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 19, 2017, 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.

Deloitte & Touche LLP

June 19, 2017

The following discussion and analysis provides an understanding of the Federated States of Micronesia (FSM) Social Security Administration's (FSMSSA) financial performance for fiscal year ended December 31, 2016. 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:

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; Chairman effective 12/05/16
Kalwin Kephas	State of Kosrae	Member
Alexander R. Narruhn	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. 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 budget not exceeding 11% of its projected income for the ensuing fiscal year. The budget ceiling for year 2016 based on projected income of $16.90 million was $1.86 million. However, as part of management's cost cutting measures, the budget was reduced to $1.28 million which is 7.6% of the projected income. The actual administrative costs incurred for 2016 was $1.17 million, or 8% surplus compared to the approved budget.

Highlights

- Contributions collected increased by $939,490 or 5.3% to $18.56 million in 2016 compared to $17.62 million in 2015. The increase in contributions was attributed mainly to a number of employers who paid their current quarterly tax dues on time.

- Benefit payments to members or their beneficiaries increased by $666,398 or 3.5% to $19.91 million in 2016 compared to $19.24 million in 2015. The rise in benefit payments was partly due to the return of retirees' eligibility back to 100% of benefit effective January 2016. Benefits will continue to increase every year as wage earners or their dependents become eligible for benefits.

- 6,473 beneficiaries received social security benefits as of end of year 2016.

- 772 retirement, survivor and disability claims were received and processed in year 2016.

- The investment portfolio, including marketable securities, increased to $44.82 million in 2016 from $44.82 million in 2015. Investment return was recorded at 4.59% or $2.01 million. However, $2.0 million was withdrawn to cover the cash shortfall in 2016.

- A drawdown of $2.0 million was made from the investment portfolio to supplement benefit payments.

- Received $1.0 million in funding from the FSM National Government, which was used to supplement benefit payments.

- Net position totaled $50.39 million as of December 31, 2016, compared to $49.82 million as of December 31, 2015, an increase of 1.15%.

- $899,798 from delinquent accounts were collected in year 2016. 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.

- Close monitoring of expenses led to a budget surplus of 8% in year 2016.

- Received $458,200 from Prior Service Trust Fund Administration (PSTFA). Prior Service benefits paid in 2016 totaled $314,287. A 20% increase was applied to all benefits retroactive to October 2015. Minimum benefits were adjusted from $27 to $50. In addition, a 3% COLA was applied to benefits that are greater than $50 and starting October 2016, an additional 3% was applied to all benefits.

- 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.

RESULTS OF OPERATIONS / CHANGES IN NET POSITION

FSMSSA follows the calendar year as its reporting year. The following table presents information about FSMSSA results of operations for CY2016, 2015 and 2014.

	2016	2015	2014
Contributions	$ 18,563,485	$ 17,623,995	$ 17,641,983
Benefit payments	(19,906,488)	(19,240,090)	(18,985,730)
Administrative expenses	(1,173,775)	(1,208,146)	(1,121,686)
Other income, net	1,070,104	2,047,029	1,046,328
Operating deficit	(1,446,674)	(777,212)	(1,419,105)
Investment income, net	2,017,284	469,997	2,659,510
Change in net position	570,610	(307,215)	1,240,405
Net position at beginning of year	49,820,515	50,127,730	48,887,325
Net position at end of year	$ 50,391,125	$ 49,820,515	$ 50,127,730

Contributions:

	2016	2015	2014
Government	$ 9,157,463	$ 8,670,218	$ 8,650,038
Private	9,156,577	8,789,853	8,783,794
Judgment	11,097	7,285	54,844
Penalties & Interests	238,348	156,639	153,307
Total	$ 18,563,485	$ 17,623,995	$ 17,641,983

Contributions collected increased by $939,490 or 5.3% to $18.56 million in 2016 compared to $17.62 million in 2015, averaging a collection of $4.64 million per quarter. The increase in collections was attributed mainly to a number of employers who paid their current quarterly tax dues on time. There were also a number of new registered employers who contributed to the rise in collection in 2016.

Benefit Payments:

	2016	2015	2014
Retirement	$ 12,576,867	$ 12,024,918	$ 11,692,921
Survivors	5,447,318	5,381,314	5,420,464
Disability	1,632,870	1,514,583	1,502,864
Lump Sum	249,433	319,275	369,481
Total	$ 19,906,488	$19,240,090	$ 18,985,730

Benefit payments increased by $666,398 or 3.5% to $19.91 million in 2016 compared to $19.24 million in 2015. The increased amount was attributed mainly to the 772 new claims received and processed in 2016. Another reason for the increase was the return of retirees' eligibility back to 100% of benefit effective January 2016. As of December 31, 2016, there were 6,473 members or their beneficiaries who received benefits.

Administrative Expense:

	2016	2015	2014
Budget	$1,276,548	$1,275,598	$1,269,455
Actual	$1,173,775	$1,208,146	$1,121,686
Surplus	$ 102,773	$ 67,452	$ 147,769
% of Budget	8%	5%	12%

Administrative expense decreased by $34,371 or 2.8% mainly due to lower travel expense of the Board as a result of a reduction in the number of board meetings in 2016. There were 4 board meetings held in 2016 compared to 5 meetings in 2015. Also, part of the budget allocated for printing benefit checks was not utilized in 2016 as there was still enough inventories of blank checks for the year. Other expense items remain fairly stable, if not lower, as management continuously monitors its operating expenses. This year's budget surplus was 8%.

Investment Income / (Loss):

	2016	2015	2014
Investment	$ 43,693,123	$ 43,005,195	$ 45,329,658
Income/(Loss)	$ 2,017,284	$ 469,997	$ 2,659,510
Drawdowns	$ 2,000,000	$ 2,500,000	$ 1,000,000

Investment income increased by $1,547,287 or 329% to $2,017,284 compared to $469,997 in 2015. Investment returns was recorded at 4.59% for the year and market value of the investment portfolio stood at $43.69 million as of December 31, 2016. The amount is net of a $2.0 million drawdown that was used to supplement benefit payments in addition to the $1.0 million funding received from the FSM National Government.

Other Income:

	2016	2015	2014
Appropriation from FSM NG	$ 1,000,000	$ 2,000,000	$ 1,000,000
Prior Service Reimbursement	61,334	36,770	44,486
Miscellaneous Receipts	32,073	30,312	24,864
Tax Refunds	(23,303)	(20,053)	(23,022)
Total	$ 1,070,104	$ 2,047,029	$ 1,046,328

Other income decreased by $976,925 or 48% to $1,070,104 in 2016 compared to $2,047,029 in 2015. The decrease in other income was attributed mainly to lower appropriation from the FSM National Government from $2.0 million in 2015 to $1.0 million in 2016. 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 POSITION

FSMSSA Statements of Net Position as of December 31, 2016, 2015 and 2014 follows:

	2016	2015	2014
Assets:			
Cash and equivalents	$ 3,795,332	$ 2,922,069	$ 2,020,467
Investments	43,693,123	43,005,195	45,329,658
Other current assets	3,014,141	3,953,009	2,867,721
Fixed assets, net	69,916	99,865	81,774
Total	50,572,512	49,980,138	50,299,620
Liabilities	181,387	159,623	171,890
Net Position:			
Held in trust for retirement, disability and survivors' benefits	$ 50,391,125	$ 49,820,515	$ 50,127,730

Net position for the retirement fund (excluding the Prior Service Fund) increased by $570,610 or 1.15% to $50.39 million in 2016 from $49.82 million in 2015. The increase in net position was attributed mainly to the higher market value of the trust fund assets, which was recorded at $43.69 million as of December 31, 2016. Investment return during the year was registered at 4.59% with a net investment gain of $2,017,284.

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 2016, total funds received from the Prior Service Trust Fund Administration (PSTFA) amounted to $458,200 while benefits paid and administrative expense totaled $314,287 and $62,877, respectively. A 20% increase was applied to all benefits which was retroactive to October 2015. The minimum benefit was also adjusted from $27 to $50. In addition, a 3% COLA was applied to benefits that are greater than $50 and starting October 2016, an additional 3% was applied to all benefits.

As of December 31, 2016, the Prior Service Fund had a net position of $280,537. Contributions increased by 100% while benefit payments also increased by 71%.

Following are the Statements of Net Position as of December 31, 2016, 2015, and 2014 and the Statements of Changes in Net Position for the years ended December 31, 2016, 2015, and 2014 of PSTFA:

Statements of Net Position

(Prior Service Fund)

	2016	2015	2014
Assets	$ 356,970	$ 243,971	$ 232,355
Liabilities	(76,433)	(46,283)	(42,808)
Net Position	$ 280,537	$ 197,688	$ 189,547

Statements of Changes in Net Position
(Prior Service Fund)

	2016	2015	2014
PSTFA contributions	$ 458,200	$ 228,767	$ 294,083
Benefit payments	(314,287)	(183,851)	(308,195)
Administrative expense	(62,877)	(37,140)	(44,522)
Other	1,813	365	1,966
Change in net position	82,849	8,141	(56,668)
Net position at beginning of year	197,688	189,547	246,215
Net position at end of year	$ 280,537	$ 197,688	$ 189,547

Conclusion:

Fiscal year 2016 saw a big improvement in tax collection. Contributions collected increased by $939,490 representing 5.3% higher than collections in 2015. More employers are beginning to comply with the deadlines and paying current social security tax dues on time. In addition, there were a number of new employers registered in 2016 that contributed also to the higher collection this year. Meanwhile, benefit payments also went up by $666,398 or 3.5% increase from 2015. As a result, 2016 saw another operational deficit. Contributions collected amounting to $18.56 million were not enough to pay the benefits of $19.91 million and administrative expense of $1.17 million. To cover the shortfall, management was compelled to drawdown $2.0 million from the investment trust fund. The FSM National Government also contributed $1.0 million to the shortfall.

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 Administration faces. In 2016, we have managed to recover $899,798 in delinquent taxes, a major accomplishment considering the slow economic growth in the FSM.

With increased benefit payments of 3.5% and 1.3% in fiscal years 2016 and 2015, respectively, and 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 survey of current beneficiaries;
4. Monitor investment performance; and
5. Control administrative expenses.

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

2017 Outlook

FSMSSA is projecting another operational loss in 2017 and approximately $1.0 million will be needed in supplemental funding to fully fund the benefits expected to be paid during the year.

Collections for 2017 is projected to grow again but at a lower rate than the 5.3% attained in 2016. We expect that the 4% growth rate in January to May 2017 will be achieved for the remainder of the year. Increase in collections could be partially offset by noncompliance of contribution payments from some employers. Despite the imposition of criminal penalties to employer offenders of FSM Social Security Act as mandated by PL-15-73, there are still some employers who are noncompliant. Currently, the total taxes due from active delinquent employers totaled $2,016,476. Of this amount, $404,329 is under judgment accounts. 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 $19.31 million including collection from delinquent accounts.

Meanwhile, benefits grew 4.2% in January to May 2017. We are raising this rate and projecting 4.5% benefit growth rate for the year 2017. Benefit payments will continue to increase in 2017 because of new claims that will be received, processed and approved during the year. Hence, benefits are expected to be $20.80 million by end of 2017.

Administrative cost is projected to be lower if not approximately equal to 2016. 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 $1.0 million will be needed in additional funding to supplement benefit payments and administrative expenses in 2017. The deficit is anticipated to be funded with cash withdrawals from investments and/or funding from the FSM National Government.

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

Management's Discussion and Analysis for the year ended December 31, 2015 is set forth in the Administration's report on the audit of financial statements, which is dated June 13, 2016. That Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

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

Statements of Fiduciary Net Position
December 31, 2016 and 2015

ASSETS	2016	2015
Cash and cash equivalents	$ 4,152,302	$ 3,165,615
Receivables:		
Contributions	2,948,089	2,943,789
Due from FSM National Government	-	1,000,000
Other	60,504	7,895
Total receivables	3,008,593	3,951,684
Prepayments	5,548	1,750
Investments:		
Fixed income	14,890,932	14,694,669
Stocks	28,802,191	28,310,526
Total investments	43,693,123	43,005,195
Depreciable fixed assets, net	69,916	99,865
Total assets	50,929,482	50,224,109
LIABILITIES		
Accounts payable	226,559	176,412
Other liabilities and accruals	31,261	29,494
Total liabilities	257,820	205,906
Contingencies		
NET POSITION		
Held in trust for retirement, disability and survivors' benefits	$ 50,671,662	$ 50,018,203

See accompanying notes to financial statements.

Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Additions:		
Contributions	$ 18,563,485	$ 17,623,995
Investment income:		
Net change in the fair value of investments	1,261,672	(328,309)
Interest and dividends	1,035,757	1,038,314
Total investment income	2,297,429	710,005
Less investment expense:		
Investment management and custodial fees	(279,777)	(239,643)
Net investment income	2,017,652	470,362
Other additions:		
Contributions from FSM National Government	1,000,000	2,000,000
Other	553,052	295,849
	1,553,052	2,295,849
Total additions	22,134,189	20,390,206
Deductions:		
Benefit payments:		
Retirement	12,675,626	12,086,658
Survivors	5,662,711	5,503,425
Disability	1,632,870	1,514,583
Lump sum	249,568	319,275
Total benefit payments	20,220,775	19,423,941
Refunds	23,303	20,053
Administrative	1,236,652	1,245,286
Total deductions	21,480,730	20,689,280
Change in net position	653,459	(299,074)
Net position at beginning of year	50,018,203	50,317,277
Net position at end of year	$ 50,671,662	$ 50,018,203

See accompanying notes to financial statements.

(1) Organization

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

(2) Summary of Significant Accounting Policies

A. Basis of Accounting

The FSM Social Security Administration (the Administration) is accounted for as a Fiduciary Fund Type - Private Purpose Trust Fund and is a component unit of the FSM National Government. The Administration prepares its financial statements using the accrual basis of accounting. It recognizes employee and employer contributions as revenues in the quarter employee earnings are paid. Retirement benefits are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred regardless of when payment is made.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and modified by Statement No. 38, *Certain Financial Statement Note Disclosures,* establishes 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.

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.

(2) Summary of Significant Accounting Policies, Continued

D. 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.

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.

(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, 2016 and 2015, the carrying amount of the Administration's total cash and cash equivalents was $4,152,302 and $3,165,615, respectively, and the corresponding bank balances were $4,379,060 and $3,481,277, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2016 and 2015, bank deposits in the amount of $1,009,670 and $500,000, respectively, were FDIC insured. The Administration does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments:

As of December 31, 2016 and 2015, investments are as follows:

	2016	2015
Fixed income securities:		
Domestic fixed income	$ 14,890,932	$ 14,694,669
Other investments:		
Domestic equities	16,420,415	15,527,701
International equities	7,743,952	8,048,294
Real estate investment trust and tangibles	4,637,824	4,734,531
	$ 43,693,123	$ 43,005,195

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Administrator does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued

As of December 31, 2016, the Administration's investments in fixed income securities were as follows:

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	$ 515,659	$ 2,567,549	$ 2,422,084	$ 3,027,461	$ 8,532,753
Mortgage and asset-backed securities	-	508,160	1,079,644	836,276	2,424,080
Corporate notes and bonds	-	1,854,056	2,080,043	-	3,934,099
	$ 515,659	$ 4,929,765	$ 5,581,771	$ 3,863,737	$ 14,890,932

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

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	$ -	$ 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	181,237	1,474,130	1,135,622	968,043	3,759,032
	$ 181,237	$ 4,876,783	$ 6,152,572	$ 3,484,077	$ 14,694,669

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, 2016, was as follows:

Standard and Poors' Rating	Domestic
AAA	$ 8,532,753
AA+	339,721
AA	222,825
A	304,644
A2/A-	401,581
A3/A-	951,585
A3/BBB+	891,905
BAA1/BBB+	243,814
BAA3/BBB	578,023
Not rated	2,424,081
	$ 14,890,932

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

The Administration's exposure to credit risk at December 31, 2015, was as follows:

Standard and Poors' Rating	Domestic
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	2,643,286
	$ 14,694,669

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, 2016 and 2015. 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, 2016 and 2015.

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. The Administration has the following recurring fair value measurements as of December 31, 2016 and 2015:

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

	December 31, 2016	Fair Value Measurements Using: Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	$ 14,890,932	$ -	$ 14,890,932	$ -
Equity securities	24,164,367	24,164,367	-	-
Real estate investment trust and tangibles	4,637,824	4,637,824	-	-
	$ 43,693,123	$ 28,802,191	$ 14,890,932	$ -

	December 31, 2015	Fair Value Measurements Using: Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	$ 14,694,669	$ -	$ 14,694,669	$ -
Equity securities	23,575,995	23,575,995	-	-
Real estate investment trust and tangibles	4,734,531	4,734,531	-	-
	$ 43,005,195	$ 28,310,526	$ 14,694,669	$ -

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.

Capital asset activity for the years ended December 31, 2016 and 2015, was as follows:

	Estimated Useful Lives	January 1, 2016	Additions	Retirements	December 31, 2016
Motor vehicles	5 years	$ 112,185	$ -	$ (11,000)	$ 101,185
Computer software and hardware	5 years	142,918	2,003	(15,819)	129,102
Office furniture, fixtures and equipment	5 years	110,916	2,838	(2,458)	111,296
Home furnishings	5 years	6,941	1,702	(1,077)	7,566
		372,960	6,543	(30,354)	349,149
Less accumulated depreciation		(273,095)	(34,244)	28,106	(279,233)
		$ 99,865	$ (27,701)	$ (2,248)	$ 69,916

(2) Summary of Significant Accounting Policies, Continued

F. Depreciable Fixed Assets, Continued

	Estimated Useful Lives	January 1, 2015	Additions	Retirements	December 31, 2015
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	5,996	945	-	6,941
		355,130	54,189	(36,359)	372,960
Less accumulated depreciation		(273,356)	(36,098)	36,359	(273,095)
		$ 81,774	$ 18,091	$ -	$ 99,865

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 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 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.

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.

(2) Summary of Significant Accounting Policies, Continued

I. Contributions, Continued

Contribution revenues recorded during the years ended December 31, 2016 and 2015 are comprised of the following:

	2016	2015
Government employment	$ 9,157,463	$ 8,670,218
Private employment	9,156,577	8,789,853
Judgments	11,097	7,285
Penalties and interest	238,348	156,639
	$ 18,563,485	$ 17,623,995

J. Benefit Obligations

Benefits are paid to every person who is a fully insured individual as defined by the Act, has attained sixty (60) 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, 2016 and 2015, the minimum monthly benefit payment is $100.

K. New Accounting Standards

During the year ended December 31, 2016, the Administration implemented the following pronouncements:

- GASB 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 implementation of this statement resulted in additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques.

- GASB 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 No. 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 implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

K. New Accounting Standards, Continued

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying 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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 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 financial statements.

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 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 financial statements.

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

K. New Accounting Standards, Continued

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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 financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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 financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the 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.

(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, 2016 and 2015 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, 2016 and 2015, the Administration recorded total fund equity of $50,391,125 and $49,820,515, 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) Commitments

The Administration leases office spaces in each of its four locations with leases expiring through 2021.

(5) Commitments, Continued

Future minimum lease payments are as follows:

Year Ending December 31,	
2017	$ 59,967
2018	46,163
2019	46,163
2020	46,163
2021	12,600
	$ 211,056

(6) 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, 2016 and 2015, contributions from the FSM National Government amounted to $1,000,000 and $2,000,000, respectively.

(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 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, 2016 and 2015, had received an allocation of $459,645 and $228,767, respectively, from PSTFA of which $314,287 and $183,851 were paid as benefits during the years ended December 31, 2016 and 2015, 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, 2016 and 2015, the amount available for future benefit payments under the Prior Service Benefits Program amounted to $280,537 and $197,688, respectively.

(8) Retirement Plan

The Administration established a retirement savings plan effective March 21, 2016. The Administration's retirement plan is 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, 2016, the Administration incurred an expense of $12,889 for matching contributions. As of December 31, 2016, plan assets were $26,403. Management is of the opinion that the retirement plan assets do not constitute assets of the Administration.

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, 2016

	Retirement Fund	Prior Service Fund	Total
ASSETS			
Cash and cash equivalents	$ 3,795,332	$ 356,970	$ 4,152,302
Receivables:			
Contributions	2,948,089	-	2,948,089
Other	60,504	-	60,504
Total receivables	3,008,593	-	3,008,593
Prepayments	5,548	-	5,548
Investments:			
Fixed income	14,890,932	-	14,890,932
Stocks	28,802,191	-	28,802,191
Total investments	43,693,123	-	43,693,123
Depreciable fixed assets, net	69,916	-	69,916
Total assets	50,572,512	356,970	50,929,482
LIABILITIES			
Accounts payable	150,126	76,433	226,559
Other liabilities and accruals	31,261	-	31,261
Total liabilities	181,387	76,433	257,820
NET POSITION			
Held in trust for retirement, disability and survivors' benefits	$ 50,391,125	$ 280,537	$ 50,671,662

See Accompanying Independent Auditors' Report.

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

Combining Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2016

	Retirement Fund	Prior Service Fund	Total
Additions:			
Contributions	$ 18,563,485	$ -	$ 18,563,485
Investment income:			
Net change in the fair value of investments	1,261,672	-	1,261,672
Interest and dividends	1,035,389	368	1,035,757
Total investment income	2,297,061	368	2,297,429
Less investment expense:			
Investment management and custodial fees	(279,777)	-	(279,777)
Net investment income	2,017,284	368	2,017,652
Other additions:			
Contributions from FSM National Government	1,000,000	-	1,000,000
Other	93,407	459,645	553,052
	1,093,407	459,645	1,553,052
Total additions	21,674,176	460,013	22,134,189
Deductions:			
Benefit payments:			
Retirement	12,576,867	98,759	12,675,626
Survivors	5,447,318	215,393	5,662,711
Disability	1,632,870	-	1,632,870
Lump sum	249,433	135	249,568
Total benefit payments	19,906,488	314,287	20,220,775
Refunds	23,303	-	23,303
Administrative	1,173,775	62,877	1,236,652
Total deductions	21,103,566	377,164	21,480,730
Change in net position	570,610	82,849	653,459
Net position at beginning of year	49,820,515	197,688	50,018,203
Net position at end of year	$ 50,391,125	$ 280,537	$ 50,671,662

See Accompanying Independent Auditors' Report.

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

The Board of Trustees
FSM Social Security Administration:

We have audited, 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, 2016, 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 19, 2017.

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.

Deloitte.

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.

Deloitte & Touche LLP

June 19, 2017

Summary Schedule of Prior Year Findings
Year Ended December 31, 2016

There are no prior year findings unresolved as of December 31, 2016.