

**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, 2020 AND 2019

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

Years Ended December 31, 2020 and 2019
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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, 2020 and 2019, 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, 2020 and 2019, 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

Uncertainty Regarding Funded Ratio

As discussed in Note 4 to the financial statements, the Administration may be unable to meet its future benefit obligations. 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 3 through 8 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. 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 July 7, 2021, on our consideration of the Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Administration's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Administration's internal control over financial reporting and compliance.

Deloitte & Touche LLP

July 7, 2021

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Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019

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, 2020. This section has been prepared by the management and should be read in conjunction with the FSMSSA's financial statements and accompanying notes.

Administration

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

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

Jack Harris, State of Pohnpei	Chairman of the Board
Vincent Tafileluw, State of Yap	Vice Chairman
Albert Falcam, National Government	Member
Nakama Sana, State of Chuuk	Member
Nena Ned, State of Kosrae	Member
Francky Ilai, Acting 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. After five years, on January 01, 2018, the maximum quarterly taxable wage has been increased to \$8,000.00.

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 2020 based on projected income of \$20 million was \$2.2 million. However, as part of management's cost cutting measures, the budget was reduced to \$1.33 million, which is 6.7% of the projected income. The actual administrative costs incurred for 2020 was \$1.2 million, or 10.1% surplus compared to the approved budget.

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Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019

Highlights

- Contributions collected increased by \$562,294 or 2.8% to \$20.5 million in 2020 compared to \$19.9 million in 2019. The increased amount was attributed mainly to government contributions.
- Benefit payments to members or their beneficiaries increased by \$559,067 or 2.5% to \$22.9 million in 2020 compared to \$22.3 million in 2019. 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.
- 6,619 beneficiaries received social security benefits as of end of year 2020.
- 725 retirement, survivor and disability claims were received, processed and approved in 2020.
- The investment portfolio, including marketable securities, outperformed in 2020 with a market value of \$54.2 million as of December 31, 2020. Net investment income was recorded at \$5.6 million or 10.3% investment return.
- Received \$1 million in funding from the FSM National Government, which was used to supplement benefit payments.
- Net position totaled \$58.3 million as of December 31, 2020, compared to \$55.3 million as of December 31, 2019, an increase of 5.4%.
- \$644,425 from delinquent accounts were collected in year 2020. Some delinquent employers remain non-compliant and will not pay their delinquent accounts. For this reason, more of these employers are being referred to legal counsel. As of first quarter 2021, \$1.1 million delinquent accounts are with court judgment.
- Close monitoring of expenses led to a budget surplus of 10.1% in year 2020.
- Received \$226,841 from Prior Service Trust Fund Administration (PSTFA). Prior Service benefits paid in 2020 totaled \$213,038. In October 2020, a 3% COLA was applied to all benefits.
- Effective January 1, 2018, the maximum quarterly taxable wages has been increased from \$7,000 to \$8,000.

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 the years December 31, 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contributions	\$ 20,460,623	\$ 19,898,329	\$ 19,720,805
Benefit payments	(22,890,420)	(22,331,353)	(21,926,501)
Administrative expenses	(1,197,539)	(1,331,329)	(1,284,786)
Other income, net	1,048,759	1,050,104	1,051,912
Operating deficit	(2,578,577)	(2,714,249)	(2,438,570)
Investment income, net	5,589,333	8,272,573	(3,093,984)
Change in net position	3,010,756	5,558,324	(5,532,554)
Net position at beginning of year	55,262,727	49,704,403	55,236,957
Net position at end of year	<u>\$ 58,273,483</u>	<u>\$ 55,262,727</u>	<u>\$ 49,704,403</u>

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Years Ended December 31, 2020 and 2019

Contributions:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Government	\$ 10,519,584	\$ 10,035,009	\$ 9,691,723
Private	9,766,009	9,664,838	9,661,515
Judgment	8,023	35,244	31,989
Penalties & Interests	<u>167,007</u>	<u>163,238</u>	<u>335,578</u>
Total	<u>\$ 20,460,623</u>	<u>\$ 19,898,329</u>	<u>\$ 19,720,805</u>

Contributions collected increased by \$562,294 or 2.8% to \$20.5 million in 2020 compared to \$19.9 million in 2019, averaging a collection of \$5.1 million per quarter. The increase in collections was attributed mainly to government contribution.

Benefit Payments:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Retirement	\$ 14,947,439	\$ 14,396,625	\$ 14,025,633
Survivors	5,942,815	5,876,597	5,758,376
Disability	1,785,760	1,790,616	1,828,928
Lump Sum	<u>214,406</u>	<u>267,515</u>	<u>313,564</u>
Total	<u>\$ 22,890,420</u>	<u>\$ 22,331,353</u>	<u>\$ 21,926,501</u>

Benefit payments increased by \$559,067 or 2.5% to \$22.9 million in 2020 compared to \$22.3 million in 2019. The increased amount was attributed mainly to the 725 new claims received, processed and approved in 2020. Another reason for the increase was the return of retirees' eligibility back to 100% of benefit effective January 2016. As of December 31, 2020, there were 6,619 members or their beneficiaries who received benefits.

Administrative Expense:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Budget	\$ 1,332,552	\$ 1,311,974	\$ 1,324,732
Actual	\$ 1,197,539	\$ 1,331,329	\$ 1,284,786
Surplus (deficiency)	\$ 135,013	\$ (19,355)	\$ 39,946
% of Budget	10%	2%	3%

Administrative expense decreased by \$133,790 or 10% to \$1.2 million in 2020 compared to \$1.3 million in 2019. Most expense items remain fairly stable, if not lower, as management continuously monitors its operating expenses.

Investment Income / (Loss):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Investment	\$ 53,256,577	\$ 50,020,855	\$ 43,334,631
Income/(loss)	\$ 5,587,441	\$ 8,222,573	\$ (3,093,984)
Drawdown	\$ 3,000,000	\$ 2,000,000	\$ 3,000,000

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Years Ended December 31, 2020 and 2019

Net investment income in 2020 amounted to \$5.6 million, or 32% decrease compared to net investment income of \$8.2 million in 2019. A drawdown of \$3.0 million was made from the investment trust fund to supplement benefit payment in 2020.

Other Income:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Appropriation from FSMNG	\$1,000,000	\$1,000,000	\$1,000,000
Prior Service Reimbursement	43,239	42,873	43,836
Miscellaneous Receipts	25,524	29,663	30,782
Tax Refunds	<u>(20,004)</u>	<u>(22,432)</u>	<u>(22,706)</u>
Total	<u>\$1,048,759</u>	<u>\$1,050,104</u>	<u>\$1,051,912</u>

Other income slightly decreased by \$1,345 or 0.1% to \$1.049 million in 2020 compared to \$1.05 million in 2019. 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, 2020, 2019 and 2018 follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets			
Cash and equivalents	\$ 1,539,936	\$ 2,144,324	\$ 2,881,516
Investments	53,256,577	50,020,855	43,334,631
Other current assets	3,572,628	3,189,985	3,575,922
Fixed assets, net	<u>51,850</u>	<u>61,973</u>	<u>67,463</u>
Total	58,420,991	55,417,137	49,859,532
Liabilities	<u>147,508</u>	<u>154,410</u>	<u>155,129</u>
Net Position			
Held in trust for retirement, disability and survivors' benefits	<u>\$ 58,273,483</u>	<u>\$ 55,262,727</u>	<u>\$ 49,704,403</u>

Net position for the Retirement Fund (excluding the Prior Service Fund) increased by \$3.0 million or 5.4% to \$58.3 million in 2020 from \$55.3 million in 2019. The increase in net position was attributed mainly to the outperformance of the investment trust fund assets with market value recorded at \$54.2 million including marketable securities as of December 31, 2020. Net investment income during the year was registered at \$5.6 million or 10.3% investment return.

The FSMSSA continues to manage the Prior Service Benefits Program for FSM citizens, which is funded by the U.S. Department of the Interior, Office of Insular Affairs. For FY 2020, total funds received from the Prior Service Trust Fund Administration (PSTFA) amounted to \$226,841 while benefits paid and administrative expense totaled \$213,038 and \$43,299, respectively. A 3% cola was applied to all benefits in October 2020.

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Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019

As of December 31, 2020, the Prior Service Fund had a net position of \$135,029. Contributions decreased by 29.7% while benefit payments also decreased by 8.7%.

Following are the Statements of Net Position as of December 31, 2020, 2019, and 2018 and the Statements of Changes in Net Position for the years ended December 31, 2020, 2019, and 2018 of PSTFA:

Statements of Net Position
(Prior Service Fund)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets	\$ 135,029	\$ 164,406	\$ 183,167
Liabilities	-	-	(60,964)
Net Position	<u>\$ 135,029</u>	<u>\$ 164,406</u>	<u>\$ 122,203</u>

Statements of Changes in Net Position
(Prior Service Fund)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
PSTFA contributions	\$ 226,841	\$ 322,599	\$ 157,565
Benefit payments	(213,038)	(233,262)	(252,683)
Administrative expense	(43,299)	(47,499)	(52,617)
Other	119	365	451
Change in net position	<u>(29,377)</u>	<u>42,203</u>	<u>(147,284)</u>
Net position at beginning of year	<u>164,406</u>	<u>122,203</u>	<u>269,487</u>
Net position at end of year	<u>\$ 135,029</u>	<u>\$ 164,406</u>	<u>\$ 122,203</u>

Management's Discussion and Analysis for the year ended December 31, 2019 is set forth in the Administration's report on the audit of financial statements, which is dated December 28, 2020. That Discussion and Analysis explains the major factors impacting the 2019 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

Conclusion:

The FSMSSA Retirement Fund net position in 2020 increased by \$3.0 million or 5.4% mainly due to the outperformance of the investment trust fund assets with investment gain recorded at \$5.56 million, a 10.3% investment return. The year also saw another operational deficit due to imbalances of tax collections and benefit payments including administrative expense.

Total contributions collected amounted to \$20.5 million while benefits paid and administrative expense totaled \$22.9 million and \$1.2 million, respectively for a cash shortfall of \$3.6 million. The shortfall was funded by subsidy received from the FSM National Government in the amount of \$1 million and from investment drawdowns of \$3 million.

The Board of Trustees, and management and staff of the FSMSSA will continue to pursue strategies that will help overcome some of the challenges that the Program faces. In 2020, we managed to recover \$644,425 in delinquent taxes, a major accomplishment considering the slow economic growth in the FSM.

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Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019

With increased benefit payments of 2.5% and 1.8% in fiscal years 2020 and 2019, respectively, and unfunded accrued liability of \$304.4M (as of Jan 1, 2020), management endeavors to improve its operation through the following:

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

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

2021 Outlook

FSMSSA is projecting another operational loss in 2021 and approximately \$4.5 million will be needed in supplemental funding to fully fund the benefits expected to be paid during the year.

Collection for 2021 is projected to remain at the same level as in 2020. Any increase, if there is any, could be partially offset by non-compliance 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. As of first quarter 2021, the tax receivables totaled \$5 million of which \$3 million pertains to closed/inactive employers while the remaining \$2 million are for active delinquent employers. Out of the total tax receivables, \$1.1 million are with court judgments. 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 \$20.5 million including collection from delinquent accounts.

Benefits will continue to increase in 2021 because of new claims that will be received, processed and approved during the year. We are projecting a 3% increase for this year which is the average increase for the past three years. Total benefits projected for 2021 is \$23.6 million.

Administrative cost is projected to be lower if not approximately equal to 2020. Management will continue to implement the cost cutting measures being practiced for the past several years.

Foregoing, benefit payments will increase faster than collections. It is projected that approximately \$4.5 million will be needed in additional funding to supplement benefit payments and administrative expenses in 2021. The deficit is anticipated to be funded with cash withdrawals from investments and/or funding from the FSM National Government.

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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

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Statements of Fiduciary Net Position
December 31, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,674,657	\$ 2,308,424
Receivables:		
Contributions	3,064,254	3,176,055
Due from FSM National Government	500,000	-
Other	8,082	13,636
Total receivables	3,572,336	3,189,691
Prepayments	600	600
Investments:		
Fixed income	17,473,795	16,066,078
Equity and others	35,782,782	33,954,777
Total investments	53,256,577	50,020,855
Capital assets, net	51,850	61,973
Total assets	58,556,020	55,581,543

LIABILITIES

Accounts payable	116,262	127,162
Other liabilities and accruals	31,246	27,248
Total liabilities	147,508	154,410

Contingencies

NET POSITION

Held in trust for retirement, disability and survivors' benefits	\$ 58,408,512	\$ 55,427,133
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See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Additions:		
Contributions	\$ 20,460,623	\$ 19,898,329
Investment income:		
Net change in the fair value of investments	4,883,227	7,294,758
Interest and dividends	985,137	1,264,865
Total investment income	5,868,364	8,559,623
Less investment expense:		
Investment management and custodial fees	(278,912)	(286,685)
Net investment income	<u>5,589,452</u>	<u>8,272,938</u>
Other additions:		
Contributions from FSM National Government	1,000,000	1,000,000
Other	295,604	395,135
	<u>1,295,604</u>	<u>1,395,135</u>
Total additions	<u>27,345,679</u>	<u>29,566,402</u>
Deductions:		
Benefit payments:		
Retirement	15,005,020	14,477,467
Survivors	6,098,272	6,029,017
Disability	1,785,760	1,790,616
Lump sum	214,406	267,515
Total benefit payments	23,103,458	22,564,615
Refunds	20,004	22,432
Administrative	1,240,838	1,378,828
Total deductions	<u>24,364,300</u>	<u>23,965,875</u>
Change in net position	2,981,379	5,600,527
Net position at beginning of year	<u>55,427,133</u>	<u>49,826,606</u>
Net position at end of year	<u>\$ 58,408,512</u>	<u>\$ 55,427,133</u>

See accompanying notes to financial statements.

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Notes to Financial Statements
December 31, 2020 and 2019

(1) Organization

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

(2) Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, establish financial reporting standards for governmental entities, which includes the requirement for the Administration to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements. In addition, these statements require that resources be classified for accounting and reporting purposes as held in trust for retirement, disability and survivors' benefits. Management of the Administration has determined that per its enabling legislation, net position of the Administration is to be held in trust for retirement, disability and survivors' benefits.

A. Basis of Accounting

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

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 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.

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.

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(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Deposits, Continued:

As of December 31, 2020 and 2019, the carrying amount of the Administration's total cash and cash equivalents was \$1,674,657 and \$2,308,424, respectively, and the corresponding bank balances were \$1,956,381 and \$2,572,066, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance or coverage by Securities Investor Protection Corporation (SIPC). As of December 31, 2020 and 2019, bank deposits in the amount of \$500,000 were FDIC insured. As of December 31, 2020 and 2019, bank deposits in the amount of \$910,698 and \$1,558,981, respectively, were subject to SIPC insurance coverage. The Administration does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments:

As of December 31, 2020 and 2019, investments are as follows:

	<u>2020</u>	<u>2019</u>
Fixed income securities:		
Domestic fixed income	\$ 17,473,795	\$ 16,066,078
Other investments:		
Domestic equities	12,255,929	13,596,788
International equities	13,318,220	10,555,240
Exchange traded funds	6,446,797	5,459,316
Real estate investment trust and tangibles	<u>3,761,836</u>	<u>4,343,433</u>
	<u>\$ 53,256,577</u>	<u>\$ 50,020,855</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.

As of December 31, 2020, the Administration's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>				<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
U.S. Treasury and agencies obligations	\$ 5,099,998	\$ 749,685	\$ 3,442,359	\$ -	\$ 9,292,042
Mortgage and asset-backed securities	-	66,484	-	330,097	396,581
Corporate notes and bonds	-	<u>2,040,472</u>	<u>5,156,560</u>	<u>588,140</u>	<u>7,785,172</u>
	<u>\$ 5,099,998</u>	<u>\$ 2,856,641</u>	<u>\$ 8,598,919</u>	<u>\$ 918,237</u>	<u>\$ 17,473,795</u>

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(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

As of December 31, 2019, the Administration's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>				<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
U.S. Treasury and agencies obligations	\$ 334,980	\$ 1,513,983	\$ 2,486,706	\$ 1,460,354	\$ 5,796,023
Mortgage and asset-backed securities	-	-	127,251	419,367	546,618
Corporate notes and bonds	<u>190,990</u>	<u>7,025,221</u>	<u>1,930,787</u>	<u>576,439</u>	<u>9,723,437</u>
	<u>\$ 525,970</u>	<u>\$ 8,539,204</u>	<u>\$ 4,544,744</u>	<u>\$ 2,456,160</u>	<u>\$ 16,066,078</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 in domestic fixed income securities at December 31, 2020 and 2019, were as follows:

<u>Standard and Poors' Rating</u>	<u>2020</u>	<u>2019</u>
AAA/AAA	\$ 7,352,713	\$ 5,796,023
AA1/AA+	-	80,660
A1/A+	-	793,617
A1/A	752,535	633,576
A1/AA-	311,476	728,074
A2/A	559,304	1,948,996
A2/A-	1,633,427	2,044,789
A2/BBB+	1,743,471	-
A3/A	106,223	-
A3/A-	847,597	639,734
A3/BBB+	1,831,138	2,446,551
Not rated/A-	-	407,438
Not rated	<u>2,335,911</u>	<u>546,620</u>
	<u>\$ 17,473,795</u>	<u>\$ 16,066,078</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, 2020 and 2019. The Administration's agent is not affiliated with or related to investment brokers. Accordingly, these investments are not exposed to custodial credit risk.

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(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

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, 2020 and 2019.

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, 2020 and 2019:

	<u>Fair Value Measurements Using</u>			
	December 31, 2020	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	\$ 17,473,795	\$ -	\$ 17,473,795	\$ -
Equity securities	25,574,149	25,574,149	-	-
Exchange traded funds	6,446,797	6,446,797	-	-
Real estate investment trust and tangibles	<u>3,761,836</u>	<u>3,761,836</u>	-	-
	<u>\$ 53,256,577</u>	<u>\$ 35,782,782</u>	<u>\$ 17,473,795</u>	<u>\$ -</u>

	<u>Fair Value Measurements Using</u>			
	December 31, 2019	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	\$ 16,066,078	\$ -	\$ 16,066,078	\$ -
Equity securities	24,152,028	24,152,028	-	-
Exchange traded funds	5,459,316	5,459,316	-	-
Real estate investment trust and tangibles	<u>4,343,433</u>	<u>4,343,433</u>	-	-
	<u>\$ 50,020,855</u>	<u>\$ 33,954,777</u>	<u>\$ 16,066,078</u>	<u>\$ -</u>

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(2) Summary of Significant Accounting Policies, Continued

F. Depreciable Capital Assets

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

Capital asset activities for the years ended December 31, 2020 and 2019, were as follows:

	<u>Estimated Useful Lives</u>	<u>January 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2020</u>
Motor vehicles	5 years	\$ 96,496	\$ -	\$ (278)	\$ 96,218
Computer software and hardware	5 years	101,192	1,295	(556)	101,931
Office furniture, fixtures and equipment	5 years	102,545	12,243	(9,889)	104,899
Home furnishings	5 years	<u>6,161</u>	<u>2,100</u>	<u>-</u>	<u>8,261</u>
		306,394	15,638	(10,723)	311,309
Less accumulated depreciation		<u>(244,421)</u>	<u>(25,272)</u>	<u>10,234</u>	<u>(259,459)</u>
		<u>\$ 61,973</u>	<u>\$ (9,634)</u>	<u>\$ (489)</u>	<u>\$ 51,850</u>
	<u>Estimated Useful Lives</u>	<u>January 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2019</u>
Motor vehicles	5 years	\$ 104,908	\$ 12,907	\$ (21,319)	\$ 96,496
Computer software and hardware	5 years	103,190	4,892	(6,890)	101,192
Office furniture, fixtures and equipment	5 years	104,281	2,814	(4,550)	102,545
Home furnishings	5 years	<u>6,161</u>	<u>-</u>	<u>-</u>	<u>6,161</u>
		318,540	20,613	(32,759)	306,394
Less accumulated depreciation		<u>(251,077)</u>	<u>(26,103)</u>	<u>32,759</u>	<u>(244,421)</u>
		<u>\$ 67,463</u>	<u>\$ (5,490)</u>	<u>\$ -</u>	<u>\$ 61,973</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 represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (deduction of net position) until then. The Administration has no items that qualify for reporting in this category.

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

Contribution revenues recorded during the years ended December 31, 2020 and 2019 are comprised of the following:

	<u>2020</u>	<u>2019</u>
Government employment	\$ 10,519,583	\$ 10,035,009
Private employment	9,766,010	9,664,839
Judgments	8,023	35,244
Penalties and interest	<u>167,007</u>	<u>163,237</u>
	<u>\$ 20,460,623</u>	<u>\$ 19,898,329</u>

J. Benefit Obligations

Benefits are paid to fully insured individual. As defined by the Act, every person who has attained sixty-five (65) or sixty (60) years of age if decided to receive 50% of benefits, and has filed an application for old age insurance benefits. Benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements, as long as they do not remarry or work. Eligible children who are not married or are not working may also receive benefits until the age of eighteen (18) or up to age twenty-two (22) if in school.

Eligible children who become disabled before age twenty-two (22) will continue to receive benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability, or until retirement or death, at which time retirement or survivor benefits become available.

Benefits are paid monthly and are computed on an annual basis of 16.5% of the first \$10,000 of cumulative covered earnings, plus 3% of the next \$30,000, 2% of any earnings in excess of \$40,000 but not in excess of the next \$262,500, and 1% of any earnings in excess of \$302,500. As of December 31, 2020 and 2019, the minimum monthly benefit payment is \$100.

K. New Accounting Standards

During the year ended December 31, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. add(s) 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements except for GASB Statement No. 90, which was implemented during the year ended December 31, 2019.

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(2) Summary of Significant Accounting Policies, Continued

K. New Accounting Standards, Continued

During the year ended December 31, 2020, the Administration implemented GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement enhances consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending December 31, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending December 31, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending December 31, 2022.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending December 31, 2022.

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(2) Summary of Significant Accounting Policies, Continued

K. New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending December 31, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending December 31, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending December 31, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending December 31, 2022.

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(2) Summary of Significant Accounting Policies, Continued

L. Management Estimates

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

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

Benefit Payments

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

Litigation

The Administration is periodically a defendant in legal actions inherent to the nature of its operations. Management is of the opinion that resolution of any matters existing as of December 31, 2020 and 2019 will not have a material effect on the accompanying financial statements.

Insufficient Funded Ratio

In April 2021, the Administration obtained an actuarial valuation of the Fund as of January 1, 2020. The valuation reported actuarial accrued liabilities and market value of assets for the Fund of \$304.4 million and \$55.4 million, respectively, as of January 1, 2020, representing a funded ratio of 15.4%. As of December 31, 2020, the Administration recorded total fund equity of \$58,273,483 in the Fund, as funds available to fund future benefit obligations. These conditions indicate that the Administration may be unable to meet its future benefit obligations.

The Administration is of the opinion that there are outstanding contributions due to the Fund; however, a reasonable estimate of this amount cannot be made primarily due to noncompliance by employers.

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(5) Commitments

The Administration leases office spaces in each of its four locations with leases expiring through 2025.

Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2021	\$ 59,567
2022	57,467
2023	46,572
2024	46,163
2025	<u>46,163</u>
	\$ <u>255,932</u>

(6) Contributions from FSM National Government

The Administration receives periodic appropriations from the Congress of the FSM to subsidize monthly benefit payments. For each of the years ended December 31, 2020 and 2019, contributions received from the FSM National Government were \$1,000,000.

(7) Prior Service Claims

Under the terms of a Prior Service Claim Adjudication Service Agreement between the Social Security Administration of the Federated States of Micronesia and the Trust Territory Prior Service Trust Fund, the Administration is to provide for the processing of benefit claims and to assist in the monitoring of continuing eligibility under the Prior Service Program. The Prior Service Trust Fund Administration (PSTFA) will reimburse the Administration \$8,000 per annum plus an amount equal to eight percent of the total amount of automated and manual benefit payments. Any cost for the Administration personnel who assist in searching and locating prior service documents in cooperation with the Prior Service Administration will be reimbursed on a dollar for dollar basis.

On September 15, 2005, an agreement was entered between the PSTFA Board and the U.S. Department of the Interior to delegate the Board's obligations and responsibility for the enrollees eligible for Prior Service Benefits Program to the Social Security Systems of the Republic of the Marshall Islands, the Republic of Palau, the Federated States of Micronesia and the Retirement Fund of the Commonwealth of the Northern Mariana Islands. Based on the agreement, the Social Security Administration (SSA) of each Government shall be entitled to an administrative fee not to exceed 20% of the share of allocated funds.

The Administration assumed administrative functions and for the years ended December 31, 2020 and 2019, received an allocation of \$226,841 and \$322,599, respectively, from PSTFA. Total benefit and administrative expense for the years ended December 31, 2020 and 2019 amounted to \$256,337 and \$280,761, 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, 2020 and 2019, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$135,029 and \$164,406, respectively.

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(8) Retirement Plan

The Administration has established a defined contribution retirement savings plan (the Plan) for its employees administered by a private corporation. All contract employees and other permanent employees with at least three months of service are eligible to participate in the Plan. Employee contributions can be made up to 100% of earnings. Employees have the option of electing to receive matching contribution or based contribution, which are both discretionary and subject to change by the Administration on a plan year basis. The Administration's Administrator is the designated plan administrator. During the years ended December 31, 2020 and 2019, the Administration incurred an expense of \$16,422 and \$13,603, respectively, for matching contributions. As of December 31, 2020 and 2019, total plan assets were \$149,850 and \$116,140, respectively. Management is of the opinion that the retirement plan assets do not constitute assets of the Administration.

(9) Subsequent Event

Management has considered subsequent events through July 7, 2021, upon which the financial statements were available to be issued. There are no other material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2020.

**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, 2020

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	1,539,936	134,721	\$ 1,674,657
Receivables:			
Contributions	3,064,254	-	3,064,254
Due from FSM National Government	500,000	-	500,000
Other	7,774	308	8,082
Total receivables	<u>3,572,028</u>	<u>308</u>	<u>3,572,336</u>
Prepayments	600	-	600
Investments:			
Fixed income	17,473,795	-	17,473,795
Equity and others	35,782,782	-	35,782,782
Total investments	<u>53,256,577</u>	<u>-</u>	<u>53,256,577</u>
Capital assets, net	51,850	-	51,850
Total assets	<u>58,420,991</u>	<u>135,029</u>	<u>58,556,020</u>
<u>LIABILITIES</u>			
Accounts payable	116,262	-	116,262
Other liabilities and accruals	31,246	-	31,246
Total liabilities	<u>147,508</u>	<u>-</u>	<u>147,508</u>
<u>NET POSITION</u>			
Held in trust for retirement, disability and survivors' benefits	<u>\$ 58,273,483</u>	<u>\$ 135,029</u>	<u>\$ 58,408,512</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA
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Combining Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2020

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total</u>
Additions:			
Contributions	\$ 20,460,623	\$ -	\$ 20,460,623
Investment income:			
Net change in the fair value of investments	4,883,227	-	4,883,227
Interest and dividends	985,018	119	985,137
Total investment income	5,868,245	119	5,868,364
Less investment expense:			
Investment management and custodial fees	(278,912)	-	(278,912)
Net investment income	5,589,333	119	5,589,452
Other additions:			
Contributions from FSM National Government	1,000,000	-	1,000,000
Other	68,763	226,841	295,604
	<u>1,068,763</u>	<u>226,841</u>	<u>1,295,604</u>
Total additions	<u>27,118,719</u>	<u>226,960</u>	<u>27,345,679</u>
Deductions:			
Benefit payments:			
Retirement	14,947,439	57,581	15,005,020
Survivors	5,942,815	155,457	6,098,272
Disability	1,785,760	-	1,785,760
Lump sum	214,406	-	214,406
Total benefit payments	22,890,420	213,038	23,103,458
Refunds	20,004	-	20,004
Administrative	1,197,539	43,299	1,240,838
Total deductions	<u>24,107,963</u>	<u>256,337</u>	<u>24,364,300</u>
Change in net position	3,010,756	(29,377)	2,981,379
Net position at beginning of year	<u>55,262,727</u>	<u>164,406</u>	<u>55,427,133</u>
Net position at end of year	<u>\$ 58,273,483</u>	<u>\$ 135,029</u>	<u>\$ 58,408,512</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, 2020, 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 July 7, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

The Administration's Response to Findings

The Administration's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Administration's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

July 7, 2021

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

Schedule of Findings and Responses
December 31, 2020

Finding No. 2020-001 – Biennial Certification or Questionnaire for Determination of Beneficiaries’ Eligibility

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

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

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

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

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

Prior Year Status: Recommendation concerning management establishing formal policies regarding determination of eligibility status of beneficiaries was reported as a finding in the audit of the Administration for fiscal year 2019.

Auditee Response and Corrective Action Plan: The biennial certification/questionnaire is an Administration’s internal office practice to complement its existing policies, procedures and directives that have been in place for years in order to mitigate the risk of paying benefits to beneficiaries who have ceased eligibilities. We believe that the Administration has very strong internal control procedures with regards to determination of eligibility status of beneficiaries. These control procedures include hiring of Investigation Officers in the states of Chuuk and Pohnpei, whose major functions include collection of overpayments and to ensure that these overpayments are returned. The Investigation Officers investigate any matters relating to continued benefit eligibility. The administration also conducts earnings test every quarter to determine any beneficiaries who have returned to work. In addition, there are written policies, procedures and directives in place with regards to distribution of benefit checks and handling unclaimed checks. Furthermore, systems application to stop the benefits of surviving children once they reach 18 years of age is in place. These policies, procedures, directives, and System applications are part of Administration’s internal control procedures that have been strictly followed on an ongoing process. However, the Administration agrees to the Auditor’s recommendation and will make sure to put the biennial questionnaire in a policy form to add more strength to its existing procedures.

It is also worthwhile to mention that due to COVID-19 global pandemic, the Administration is unable to conduct a wide scale survey this year. But for now we have scheduled survey to outer islands of Pohnpei and until such time that vaccination threshold is reached and until such time COVID-19 is no longer a threat to the nation, we can do a nationwide survey . As of this writing, 2 of our staff are headed to the outer islands of Pohnpei for the survey.

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Unresolved Prior Year Findings
December 31, 2020

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