

*Financial Statements, Additional Information, and
Compliance and Internal Control*

**Federated States of Micronesia
Social Security Administration**

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

*Years ended December 31, 2023 and 2022
with Report of Independent Auditors*



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

Financial Statements, Additional Information,
and Compliance and Internal Control

Years ended December 31, 2023 and 2022

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Report of Independent Auditors

Board of Trustees
FSM Social Security Administration

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the fiduciary activities of Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary activities of the Administration as of December 31, 2023 and 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Administration's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2024, on our consideration of the Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Administration's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Administration's internal control over financial reporting and compliance.

Ernst & Young LLP

September 30, 2024

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

Management's Discussion and Analysis

Years ended December 31, 2023 and 2022

The following discussion and analysis provides an understanding of the Federated States of Micronesia (FSM) Social Security Administration's (FSMSSA) financial performance for fiscal years ended December 31, 2023 and 2022. This section has been prepared by the management and should be read in conjunction with the FSMSSA's financial statements and accompanying notes.

Administration

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

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

Jack Harris	State of Pohnpei	Chairman of the Board
Vincent Tafileluw	State of Yap	Vice Chairman
VACANT	National Government	Member
Jason Poll	State of Chuuk	Member
Nena Ned	State of Kosrae	Member
Leon Panuelo, Jr.	Administrator	Member, Ex-officio

The Administrator, who is selected by the Board, is responsible for daily operations as well as supervision of branch managers from each of the four States of the FSM.

Funding

The FSM Social Security System is financed by employer/employee contributions at a rate of 7.5% each, or a combined tax rate of 15% paid to the system every quarter. The FSM National and State governments as well as all private employers incorporated or doing business in the FSM are subject to social security tax. Effective January 1, 2023, the maximum quarterly taxable wages has been increased from \$8,000 to \$9,000 which will be in effect for the next five years until December 31, 2027.

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

Additional revenues are derived from interests and penalties charged to delinquent taxpayers, and other miscellaneous fees.

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Management's Discussion and Analysis, continued

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 2023 based on projected income of \$20.0 million was \$2.2 million. However, as part of management's cost cutting measures, the budget was reduced to \$1.51 million, which is 7.5% of the projected income. The actual administrative costs incurred for 2023 was \$1.32 million, or 12.3% surplus compared to the approved budget.

Highlights

- Contributions collected increased by \$2.1 million or 10.1% to \$23.2 million in 2023 compared to \$21.0 million in 2022. The increased amount was attributed mainly to the increase in maximum quarterly taxable wages from \$8,000 to \$9,000 effective January 01, 2023.
- Benefit payments to Retirement Fund members or their beneficiaries increased by \$1.8 million or 7.6% to \$25.5 million in 2023 compared to \$23.7 million in 2022. The increased amount was attributed mainly to new claims and to the new law allowing beneficiaries who are 65 years and older to continue to receive 50% of their monthly benefit while still working.
- 6,641 beneficiaries received social security benefits as of end of year 2023.
- 683 retirement, survivor and disability claims were received, and processed. To date, only 580 have been approved.
- The investment portfolio, including marketable securities and money market funds classified as part of cash and cash equivalents outperformed in 2023 with a market value of \$51.6 million as of December 31, 2023. Net investment income was recorded at \$7.5 million, a 16.8% investment return.
- Received \$2.5 million in funding from the FSM National Government, and this amount was used to supplement benefit payments.
- Retirement Fund net position totaled \$56.5 million as of December 31, 2023, compared to \$50.1 million as of December 31, 2022, an increase of 12.8%.
- \$1.1 million from delinquent accounts were collected in year 2023. 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 2024, \$1.1 million delinquent accounts are with court judgment.
- Close monitoring of expenses led to a budget surplus of 12.3% in year 2023.

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Management's Discussion and Analysis, continued

- Received \$205,019 from Prior Service Trust Fund Administration (PSTFA). Prior Service benefits paid in 2023 totaled \$159,036. In October 2023, a 6% COLA was applied to all benefits.

Results of Operations / Changes in Net Position

FSMSSA follows the calendar year as its reporting year. The following table presents information about FSMSSA Retirement Fund results of operations for the years ended December 31, 2023, 2022, and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contributions	\$23,150,999	\$21,036,307	\$20,677,055
Benefit payments	(25,494,000)	(23,687,080)	(22,870,217)
Administrative expenses	(1,321,591)	(1,133,903)	(1,061,285)
Other income, net	<u>2,532,697</u>	<u>1,048,659</u>	<u>1,049,172</u>
Operating deficit	(1,131,895)	(2,736,017)	(2,205,275)
Investment income (loss), net	<u>7,536,995</u>	<u>(10,594,096)</u>	<u>7,354,945</u>
Change in net position	6,405,100	(13,330,113)	5,149,670
Net position at beginning of year	<u>50,093,040</u>	<u>63,423,153</u>	<u>58,273,483</u>
Net position at end of year	<u>\$56,498,140</u>	<u>\$50,093,040</u>	<u>\$63,423,153</u>

Contributions:

Contributions collected increased by \$2.1 million or 10.1% to \$23.2 million in 2023 compared to \$21.0 million in 2022, averaging a collection of \$5.8 million per quarter. The increase in collection was attributed mainly to the increase in maximum quarterly taxable wages from \$8,000 to \$9,000 effective January 1, 2023.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Government	\$12,126,910	\$11,123,796	\$10,688,015
Private	10,771,866	9,756,454	9,789,408
Judgment	16,461	7,609	9,177
Penalties & Interests	<u>235,762</u>	<u>148,448</u>	<u>190,455</u>
Total	<u>\$23,150,999</u>	<u>\$21,036,307</u>	<u>\$20,677,055</u>

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Management's Discussion and Analysis, continued

Results of Operations / Changes in Net Position, continued

Benefit Payments:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Retirement	\$17,732,733	\$15,936,930	\$15,119,207
Survivors	5,913,467	5,786,647	5,864,220
Disability	1,599,151	1,694,980	1,737,900
Lump Sum	<u>248,649</u>	<u>268,523</u>	<u>148,890</u>
Total	<u>\$25,494,000</u>	<u>\$23,687,080</u>	<u>\$22,870,217</u>

Benefit payments increased by \$1.8 million or 7.6% to \$25.5 million in 2023 compared to \$23.7 million in 2022. The increased amount of benefit was attributed mainly to new claims and to the new law allowing beneficiaries who are 65 years and older to continue to receive 50% of their monthly benefit while still working.

Administrative Expense:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Budget	\$ 1,507,577	\$ 1,394,512	\$ 1,350,557
Actual	\$ 1,321,591	\$ 1,133,903	\$ 1,061,285
Surplus	\$ 185,986	\$ 260,609	\$ 289,272
% of Budget	12%	19%	21%

Administrative expense totaled \$1.3 million compared to \$1.1 million in 2022, an increase of 16.6%. Most expense items remain fairly stable, if not lower, leading to a budget surplus of 12% in 2023.

Investment Income (Loss):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Investment	\$51,555,512	\$ 45,524,888	\$58,521,403
Income (loss)	\$ 7,536,995	\$(10,594,096)	\$ 7,355,016
Drawdown	\$ 1,500,000	\$ 2,400,000	\$ 3,000,000

During the years ended December 31, 2023, 2022 and 2021, included in the Investment is cash amounting to \$571,134; \$593,051 and \$1,130,038, respectively.

Net investment income in 2023 totaled \$7.5 million, representing 16.8% returns. A drawdown of \$1.5 million was made during the year to supplement benefit payments.

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Management's Discussion and Analysis, continued

Results of Operations / Changes in Net Position, continued

Other Income:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Appropriation from FSMNG	\$ 2,500,000	\$ 1,000,000	\$ 1,000,000
Prior Service Reimbursement	32,015	34,860	39,158
Miscellaneous Receipts	24,167	22,352	30,908
Tax Refunds	(<u>23,485</u>)	(<u>8,553</u>)	(<u>20,894</u>)
Total	\$ <u>2,532,697</u>	\$ <u>1,048,659</u>	\$ <u>1,049,172</u>

Other income increased by \$1.5 million due to the additional funding received from the FSM National Government to cover benefit payments arising from the new law allowing beneficiaries who are 65 years and older to continue to receive 50% of their monthly benefit while still working.

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, 2023, 2022 and 2021 follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets			
Cash and equivalents	\$ 1,476,485	\$ 1,934,755	\$ 2,125,654
Investments	50,984,378	44,931,837	57,391,365
Other current assets	3,981,469	3,182,857	3,945,730
Fixed assets, net	<u>128,039</u>	<u>117,788</u>	<u>47,420</u>
Total assets	56,570,371	50,167,237	63,510,169
Liabilities	<u>72,231</u>	<u>74,197</u>	<u>87,016</u>
Net Position			
Held in trust for retirement, disability and survivors' benefits	\$ <u>56,498,140</u>	\$ <u>50,093,040</u>	\$ <u>63,423,153</u>

Net position for the Retirement Fund (excluding the Prior Service Fund) increased by \$6.4 million or 12.8% to \$56.5 million in 2023 from \$50.1 million in 2022. The increase in net position was attributed mainly to the outperformance of the investment trust fund assets with market value recorded at \$51.6 million including marketable securities as of December 31, 2023. Net investment income during the year was registered at \$7.5 million, a 16.8% investment return.

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Management's Discussion and Analysis, continued

Net Position, continued

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 2023, total funds received from the Prior Service Trust Fund Administration (PSTFA) amounted to \$205,019 while benefits paid and administrative expense totaled \$159,036 and \$32,055, respectively. A 6% cola was applied to all benefits in October 2023.

As of December 31, 2023, the Prior Service Fund had a net position of \$118,112. Contributions increased by 95.2% while benefit payments decreased by 7.6%.

Following are the Statements of Net Position as of December 31, 2023, 2022, and 2021 and the Statements of Changes in Net Position for the years ended December 31, 2023, 2022, and 2021 of PSTFA:

	Statements of Net Position (Prior Service Fund)		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets	\$118,112	\$ 120,362	\$208,582
Liabilities	<u>---</u>	<u>(16,726)</u>	<u>(3,308)</u>
Net Position	<u>\$118,112</u>	<u>\$ 103,636</u>	<u>\$205,274</u>

	Statements of Changes in Position (Prior Service Fund)		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
PSTFA contributions	\$205,019	\$ 105,010	\$302,402
Benefit payments	(159,036)	(172,086)	(193,015)
Administrative expense	(32,055)	(34,880)	(39,213)
Other	<u>548</u>	<u>318</u>	<u>71</u>
Change in net position	14,476	(101,638)	70,245
Net position at beginning of year	<u>103,636</u>	<u>205,274</u>	<u>135,029</u>
Net position at end of year	<u>\$118,112</u>	<u>\$ 103,636</u>	<u>\$205,274</u>

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Management's Discussion and Analysis, continued

Conclusion:

The FSMSSA Retirement Fund net position in 2023 increased by \$6.4 million or 12.8% mainly due to the performance of the investment trust fund assets with investment gain recorded at \$7.5 million, a 16.8% investment return. The year also saw another operational deficit due to imbalances of tax collections and benefit payments including administrative expense.

Total contribution collected amounted to \$23.2 million while benefits paid and administrative expense totaled \$25.5 million and \$1.3 million, respectively, for a cash shortfall of \$1.1 million. The shortfall was funded by a drawdown from the investment trust fund worth \$1.5 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 2023, we managed to recover \$1.1 million in delinquent taxes, a major accomplishment considering the slow economic growth in the FSM.

With increasing benefit payments and unfunded accrued liability of \$320.9 million (as of January 1, 2023), 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;
5. Control administrative expenses; and
6. Amendments to Social Security Act

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

Management's Discussion and Analysis for the year ended December 31, 2022 is set forth in the Administration's report on the audit of financial statements, which is dated April 15, 2024. That Discussion and Analysis explains the major factors impacting the 2022 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

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Management's Discussion and Analysis, continued

Financial condition as of June 30, 2024

Net position of the retirement fund grew by \$2.6 million to \$59.1 million as of June 30, 2024.

Net investment gain for the 6-month period ending June 30, 2024 totaled \$2.9 million. However, this was offset by net ordinary loss of \$292,281. Contributions collected totaled \$13.5 million including funding received from FSM NG in the amount of \$1.0 million while benefit payments and administrative expense totaled \$13.2 million and \$678,435, respectively.

CY2025 Outlook

FSMSSA is projecting another operational loss in 2025 and approximately \$4 million will be needed in supplemental funding to fully fund the benefits expected to be paid during the year.

Collection for 2025 is projected to grow 7% on the assumption that the other FSM States will follow Pohnpei State personnel salary increase. However, the positive outlook in collection could be offset by higher benefit payments estimated to grow by approximately 5% in 2025.

Management will continue to remain focused on increasing collection from delinquent accounts and make employers pay their current quarterly tax dues by ongoing spot audits that will include most of the employers in all the FSM States. Having said that, collections from contributions are estimated to be approximately \$26.9 million including collection from delinquent accounts.

Benefits will continue to increase in 2025 because of new claims that will be received, processed and approved during the year. Total benefit payments projected for 2025 is \$27.6 million. Administrative cost is projected to be lower if not approximately equal to 2024. Management will continue to implement the cost cutting measures being practiced for the past several years.

Foregoing, benefit payments will increase faster than collections. It is projected that approximately \$4 million will be needed in additional funding to supplement benefit payments and administrative expenses in 2025. The deficit is anticipated to be funded with drawdown from the trust fund and/or subsidy from the FSM National Government.

Contacting FSMSSA Executives

This MD&A is designed to provide our citizens, taxpayers, creditors, and other interested parties with a general overview of the FSMSSA's finances and to demonstrate its accountability to funding agencies.

Questions concerning any of the information provided in this discussion or requests for information should be addressed to the Administrator, FSM Social Security Administration at P.O. Box L, Kolonia, Pohnpei, FM 96941.

Federated States of Micronesia Social Security Administration
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Statements of Fiduciary Net Position

	December 31, <u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 1,594,290	\$ 2,054,810
Receivables:		
Contributions	3,971,610	3,161,133
Other	<u>10,166</u>	<u>22,031</u>
Total receivables	<u>3,981,776</u>	<u>3,183,164</u>
Investments:		
Fixed income	17,713,877	16,867,090
Equity and others	<u>33,270,501</u>	<u>28,064,747</u>
Total investments	<u>50,984,378</u>	<u>44,931,837</u>
Capital assets, net	<u>128,039</u>	<u>117,788</u>
Total assets	<u>\$56,688,483</u>	<u>\$50,287,599</u>
Liabilities		
Accounts payable	\$ 40,665	\$ 58,598
Other liabilities and accruals	<u>31,566</u>	<u>32,325</u>
Total liabilities	<u>72,231</u>	<u>90,923</u>
Net Position		
Held in trust for retirement, disability and survivors' benefits	<u>56,616,252</u>	<u>50,196,676</u>
Total liabilities and net position	<u>\$56,688,483</u>	<u>\$50,287,599</u>

See accompanying notes.

Federated States of Micronesia Social Security Administration
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Statements of Changes in Fiduciary Net Position

	Year ended December 31,	
	<u>2023</u>	<u>2022</u>
Additions:		
Contributions	\$23,150,999	\$21,036,307
Investment income (loss):		
Net change in the fair value of investments	7,788,159	(10,318,682)
Interest and dividends	<u>548</u>	<u>318</u>
Total investment income (loss)	7,788,707	(10,318,364)
Investment expense:		
Investment management and custodial fees	(<u>251,164</u>)	(<u>275,414</u>)
Net investment income (loss)	<u>7,537,543</u>	<u>(10,593,778)</u>
Other additions:		
Contributions from FSM National Government	2,500,000	1,000,000
Other	<u>261,201</u>	<u>162,222</u>
	<u>2,761,201</u>	<u>1,162,222</u>
Total additions	<u>33,449,743</u>	<u>11,604,751</u>
Deductions:		
Benefit payments:		
Retirement	17,770,647	15,979,574
Survivors	6,034,212	5,916,089
Disability	1,599,151	1,694,980
Lump sum	<u>249,026</u>	<u>268,523</u>
Total benefit payments	25,653,036	23,859,166
Refunds	23,485	8,553
Administrative expenses	<u>1,353,646</u>	<u>1,168,783</u>
Total deductions	<u>27,030,167</u>	<u>25,036,502</u>
Change in fiduciary net position	6,419,576	(13,431,751)
Net position at beginning of year	<u>50,196,676</u>	<u>63,628,427</u>
Net position at end of year	<u>\$56,616,252</u>	<u>\$50,196,676</u>

See accompanying notes.

Federated States of Micronesia Social Security Administration
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Notes to Financial Statements

Years ended December 31, 2023 and 2022

1. Organization

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

2. Summary of Significant Accounting Policies

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

Basis of Accounting

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

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Accounting Estimates

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

Future Liabilities and Contributions

No recognition is given in the accompanying financial statements to the present value of the liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

Cash and Cash Equivalents

For the purposes of the 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.

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 of America (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, 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.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Deposits and Investments, continued

- (iii) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the Federated States of Micronesia or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by the Administration's investment advisor at the time of purchase, that not more than five percent of the market value of the Fund shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of the Fund shall be invested in any one industry group.
- (iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the Federated States of Micronesia or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent of all investments of the Fund.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Administration's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Administration does not have a deposit policy for custodial credit risk.

As of December 31, 2023 and 2022, the carrying amount of the Administration's total cash and cash equivalents was \$1,594,290 and \$2,054,810, respectively, and the corresponding bank balances were \$1,922,867 and \$2,345,436, 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, 2023 and 2022, bank deposits in the amount of \$750,000, were FDIC insured. As of December 31, 2023 and 2022, bank deposits in the amount of \$321,134 and \$343,051, 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.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Deposits and Investments, continued

Investments

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

As of December 31, 2023 and 2022, investments are as follows:

	<u>2023</u>	<u>2022</u>
Fixed income securities:		
Domestic fixed income	\$17,713,877	\$16,867,090
Other investments:		
Domestic equities	12,932,261	10,009,254
International equities	9,903,635	8,497,026
Exchange traded funds	6,332,270	6,054,523
Real estate investment trust and tangibles	<u>4,102,335</u>	<u>3,503,944</u>
	<u>\$50,984,378</u>	<u>\$44,931,837</u>

The Administration categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of December 31, 2023 and 2022, all investments are quoted in active markets.

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

As of December 31, 2023 and 2022, the Administration's investments in fixed income securities were as follows:

	<u>2023</u>			
	<u>Investment Maturities (In Years)</u>			
	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	<u>Total</u>
U.S. Treasury and agencies obligations	\$1,646,560	\$4,749,648	\$ 1,199,798	\$ 7,596,006
Mortgage and asset-backed securities	---	---	8,049,870	8,049,870
Corporate notes and bonds	<u>62,052</u>	<u>2,005,949</u>	<u>---</u>	<u>2,068,001</u>
	<u>\$1,708,612</u>	<u>\$6,755,597</u>	<u>\$9,249,668</u>	<u>\$17,713,877</u>

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Deposits and Investments, continued

Investments, continued

	<u>2022</u>			
	<u>Investment Maturities (In Years)</u>			
	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	<u>Total</u>
U.S. Treasury and agencies obligations	\$1,503,840	\$2,027,442	\$ 1,780,522	\$ 5,311,804
Mortgage and asset-backed securities	---	50,359	8,556,307	8,606,666
Corporate notes and bonds	<u>336,509</u>	<u>2,612,111</u>	<u>---</u>	<u>2,948,620</u>
	<u>\$1,840,349</u>	<u>\$4,689,912</u>	<u>\$10,336,829</u>	<u>\$16,867,090</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 as of December 31, 2023 and 2022, were as follows:

Standard and Poors' Rating

	<u>2023</u>	<u>2022</u>
AAA/AAA	\$ 7,596,006	\$ 5,311,803
A1/A-	717,713	663,847
A1/BBB+	359,629	451,166
A2/A-	---	704,772
A2/BBB+	227,849	219,223
A3/A-	361,100	351,007
A3/BBB+	401,709	558,604
Not rated	<u>8,049,871</u>	<u>8,606,668</u>
	<u>\$17,713,877</u>	<u>\$16,867,090</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 as of December 31, 2023 and 2022. The Administration's agent is not affiliated with or related to investment brokers. Accordingly, these investments are not exposed to custodial credit risk.

Federated States of Micronesia Social Security Administration
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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 *Deposits and Investment Risk Disclosures* requires disclosure by issuer and amounts of investments in any one issuer that represents five percent (5%) or more of total investments for the Administration. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. There was no concentration of credit risk for investments as of December 31, 2023 and 2022.

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, 2023 and 2022, were as follows:

		<u>2023</u>			
	<u>Estimated Useful Lives</u>	<u>January 1, 2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2023</u>
Motor vehicles	5 years	\$117,894	\$ 8,500	\$ ---	\$126,394
Office furniture, fixtures and equipment	5 years	116,007	5,661	(2,830)	118,838
Computer software and hardware	5 years	94,226	36,593	(20,231)	110,588
Home furnishings	5 years	<u>420</u>	<u>---</u>	<u>---</u>	<u>420</u>
		328,547	50,754	(23,061)	356,240
Accumulated depreciation		<u>(210,759)</u>	<u>(39,064)</u>	<u>21,622</u>	<u>(228,201)</u>
		<u>\$117,788</u>	<u>\$ 11,690</u>	<u>\$ (1,439)</u>	<u>\$128,039</u>

Federated States of Micronesia Social Security Administration
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Depreciable Capital Assets, continued

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

Depreciation expense for the years ended December 31, 2023 and 2022 amounted to \$39,064 and \$34,338, respectively, and is included as a component of administrative expenses in the accompanying statements of changes in fiduciary net position.

Deferred Outflows of Resources

In addition to assets, the statements of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (deduction of net position) until then. The Administration has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statements of fiduciary net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (additions to net position) until then. The Administration has no items that qualify for reporting in this category.

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.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Contributions, continued

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, 2023 and 2022 are comprised of the following:

	<u>2023</u>	<u>2022</u>
Government employment	\$12,126,910	\$11,123,796
Private employment	10,779,180	9,756,455
Judgments	16,461	7,609
Penalties and interest	<u>228,448</u>	<u>148,447</u>
	<u>\$23,150,999</u>	<u>\$21,036,307</u>

Contribution receivables at December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Social security tax contributions	\$ 3,949,271	\$ 3,138,278
Beneficiaries	14,602	15,442
Others	<u>7,737</u>	<u>7,413</u>
	<u>\$ 3,971,610</u>	<u>\$ 3,161,133</u>

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.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Benefit Obligations, continued

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. For the years ended December 31, 2023 and 2022, the minimum monthly benefit payment is \$100.

Recently Adopted Accounting Pronouncements

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The adoption of GASB Statement No. 94 during the year ended December 31, 2023 did not have an effect on the accompanying financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The adoption of GASB Statement No. 96 during the year ended December 31, 2023 did not result in a material effect on the accompanying financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. The adoption of GASB Statement No. 99 during the year ended December 31, 2023 did not have an effect on the accompanying financial statements.

Federated States of Micronesia Social Security Administration
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. The adoption of GASB issued Statement No. 100 during the year ended December 31, 2023 did not have an effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal year ending December 31, 2025.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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

Risk Management

The Administration is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Administration has elected to purchase automobile, and property and casualty insurance from independent third parties for the risks of loss to which it is exposed. The Administration is substantially self-insured for all other risks. Settled claims have not exceeded commercial coverage in any of the past three years.

3. Net Position Held in Trust

Net position is held in trust to comply with the Social Security Act of 1983. All net position of the Administration is to be used for retirement, disability and survivors' benefits.

4. Contingencies

Benefit Payments

The Administration is aware of liabilities of the fund related to retroactive benefit payments for wages not posted to the system due to unmatched social security numbers or names provided by employers, as well as liabilities related to overpayment of contributions. Management is unable to determine a reasonable estimate of the abovementioned liabilities and as such, record such retroactive benefit payments in the period where benefits are determined and become payable.

Litigation

The Administration is periodically a defendant in legal actions inherent to the nature of its operations. Management is of the opinion that resolution of any matters existing as of December 31, 2023 will not have a material effect on the accompanying financial statements.

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

Notes to Financial Statements, continued

5. Commitments

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

Future minimum lease payments are as follows:

Years Ending <u>December 31,</u>	
2024	\$ 64,418
2025	58,418
2026	24,855
2027	12,255
2028	<u>6,128</u>
	<u>\$166,074</u>

6. Contributions from FSM National Government

The Administration receives periodic appropriations from the Congress of the FSM to subsidize monthly benefit payments. For the years ended December 31, 2023 and 2022, contributions received from the FSM National Government amounted \$2,500,000 and \$1,000,000, respectively, which is included in other additions in the accompanying statements of changes in fiduciary net position.

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.

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

Notes to Financial Statements, continued

7. Prior Service Claims, continued

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, 2023 and 2022, received an allocation of \$205,019 and \$105,010, respectively, from PSTFA and is included as a component of other additions in the accompanying statement of changes in fiduciary net position. Total benefit and administrative expense for the years ended December 31, 2023 and 2022 amounted to \$191,091 and \$206,966, respectively, is included as a component of benefit payments and administrative expenses in the accompanying statement of changes in fiduciary net position. However, while the Administration accepts the liability for any amounts received, the Administration does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. As of December 31, 2023 and 2022, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$118,112 and \$103,636, respectively.

8. Retirement Plan

The Administration has established a defined contribution retirement savings plan (the Plan) for its employees administered by a private corporation. All contract employees and other permanent employees with at least three months of service are eligible to participate in the Plan. Employee contributions can be made up to 100% of earnings. Employees have the option of electing to receive matching contribution or based contribution, which are both discretionary and subject to change by the Administration on a plan year basis. The Administration's Administrator is the designated plan administrator. During the year ended December 31, 2023 and 2022, the Administration incurred expenses of \$21,113 and \$11,490, respectively, for matching contributions, which is included as a component of administrative expenses in the accompanying statements of changes in fiduciary net position. As of December 31, 2023 and 2022, total plan assets were \$174,351 and \$124,956. Management is of the opinion that the retirement plan assets do not constitute assets of the Administration.

Supplementary Information

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

Combining Statements of Fiduciary Net Position

December 31, 2023

	Retirement <u>Fund</u>	Prior Service <u>Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,476,485	\$117,805	\$ 1,594,290
Receivables:			
Contributions	3,971,610	---	3,971,610
Other	<u>9,859</u>	<u>307</u>	<u>10,166</u>
Total receivables	<u>3,981,469</u>	<u>307</u>	<u>3,981,776</u>
Investments:			
Fixed income	17,713,877	---	17,713,877
Equity and others	<u>33,270,501</u>	<u>---</u>	<u>33,270,501</u>
Total investments	<u>50,984,378</u>	<u>---</u>	<u>50,984,378</u>
Capital assets, net	<u>128,039</u>	<u>---</u>	<u>128,039</u>
Total assets	<u>\$56,570,371</u>	<u>\$118,112</u>	<u>\$56,688,483</u>
Liabilities			
Accounts payable	\$ 40,655	\$ ---	\$ 40,655
Other liabilities and accruals	<u>31,566</u>	<u>---</u>	<u>31,566</u>
Total liabilities	<u>72,231</u>	<u>---</u>	<u>72,231</u>
Net Position			
Held in trust for retirement, disability and Survivor' benefits	<u>56,498,140</u>	<u>118,112</u>	<u>56,616,252</u>
Total liabilities and net position	<u>\$56,570,371</u>	<u>\$118,112</u>	<u>\$56,688,483</u>

Federated States of Micronesia Social Security Administration
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Combining Statements of Fiduciary Net Position, continued

December 31, 2022

	Retirement <u>Fund</u>	Prior Service <u>Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,934,755	\$120,055	\$ 2,054,810
Receivables:			
Contributions	3,161,133	---	3,161,133
Other	<u>21,724</u>	<u>307</u>	<u>22,031</u>
Total receivables	<u>3,182,857</u>	<u>307</u>	<u>3,183,164</u>
Investments:			
Fixed income	16,867,090	---	16,867,090
Equity and others	<u>28,064,747</u>	<u>---</u>	<u>28,064,747</u>
Total investments	<u>49,931,837</u>	<u>---</u>	<u>49,931,837</u>
Capital assets, net	<u>117,788</u>	<u>---</u>	<u>117,788</u>
Total assets	<u>\$50,167,237</u>	<u>\$120,362</u>	<u>\$50,287,599</u>
Liabilities			
Accounts payable	\$ 41,872	\$ 16,726	\$ 58,598
Other liabilities and accruals	<u>32,325</u>	<u>---</u>	<u>32,325</u>
Total liabilities	<u>74,197</u>	<u>16,726</u>	<u>90,923</u>
Net Position			
Held in trust for retirement, disability and Survivor' benefits	<u>50,093,040</u>	<u>103,636</u>	<u>50,196,676</u>
Total liabilities and net position	<u>\$50,167,237</u>	<u>\$120,362</u>	<u>\$50,287,599</u>

Federated States of Micronesia Social Security Administration
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Combining Statements of Changes in Fiduciary Net Position

Year ended December 31, 2023

	Retirement <u>Fund</u>	Prior Service <u>Fund</u>	<u>Total</u>
Additions:			
Contributions	\$23,150,999	\$ ---	\$23,150,999
Investment income:			
Net change in the fair value of investments	7,788,159	---	7,788,159
Interest and dividends	<u>---</u>	<u>548</u>	<u>548</u>
Total investment income	7,788,159	548	7,788,707
Less investment expense:			
Investment management and custodial fees	(<u>251,164</u>)	<u>---</u>	(<u>251,164</u>)
Net investment income	<u>7,536,995</u>	<u>548</u>	<u>7,537,543</u>
Other additions:			
Contributions from FSM National Government	2,500,000	---	2,500,000
Other	<u>56,182</u>	<u>205,019</u>	<u>261,201</u>
	<u>2,556,182</u>	<u>205,019</u>	<u>2,761,201</u>
Total additions	<u>33,244,176</u>	<u>205,567</u>	<u>33,449,473</u>
Deductions:			
Benefit payments:			
Retirement	17,732,733	37,914	17,770,647
Survivors	5,913,467	120,745	6,034,212
Disability	1,599,151	---	1,599,151
Lump sum	<u>248,649</u>	<u>377</u>	<u>249,026</u>
Total benefit payments	<u>25,494,000</u>	<u>159,036</u>	<u>25,653,036</u>
Refunds	23,485	---	23,485
Administrative	<u>1,321,591</u>	<u>32,055</u>	<u>1,353,646</u>
Total deductions	<u>26,839,076</u>	<u>191,091</u>	<u>27,030,167</u>
Change in fiduciary net position	6,405,100	14,476	6,419,576
Net position at beginning of year	<u>50,093,040</u>	<u>103,636</u>	<u>50,196,676</u>
Net position at end of year	<u>\$56,498,140</u>	<u>\$118,112</u>	<u>\$56,616,252</u>

Federated States of Micronesia Social Security Administration
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Combining Statements of Changes in Fiduciary Net Position, continued

Year ended December 31, 2022

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

Other Supplementary Information

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Federated States of Micronesia Social Security Administration
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Principal Valuation Results

Year ended December 31, 2023

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

Membership	January 1, <u>2023</u>	January 1, <u>2020</u>	% <u>Chg</u>
Active Membership			
Number of members	15,288	16,142	(5.3)
Total payroll	\$146,015,143	\$138,563,826	5.4
Average age	40.6	40.0	1.5
Average service	10.3	9.8	5.1
Inactive Members, Fully Insured			
Number of inactive members	4,205	3,917	7.4
Average age	59.5	58.2	2.2
Average annual benefit	\$ 3,404	\$ 3,350	1.6
Inactive Members Receiving Benefit			
Payments			
Number of retirees / beneficiaries	6,373	6,697	(4.8)
Average age	65.1	63.0	3.3
Average annual benefit	— \$ 3,554	\$ 3,227	10.1
Assets and Liabilities			
Net assets			
Market Value (MVA)	\$ 50,197,000	\$ 55,427,000	(9.4)
Accrued Liability (AL)			
Retirees, Disabled Members and Spouses	\$170,296,000	\$166,629,000	2.2
Inactive, Fully Insured Members	67,348,000	60,896,000	10.6
Active Members	<u>133,471,000</u>	<u>132,347,000</u>	0.8
Total	<u>\$371,115,000</u>	<u>\$359,872,000</u>	3.1
Unfunded Accrued Liability	<u>\$320,918,000</u>	<u>\$304,445,000</u>	5.4
Funded Ratio			
MVA/AL	13.5%	15.4%	(12.3)

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

The Board of Trustees
FSM Social Security Administration

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Audit Standards*), the financial statements of the Federated States of Micronesia Social Security Administration (the Administration), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements (collectively referred to as the "financial statements"), and have issued our report thereon dated September 30, 2024.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

The Administration's Response to Findings

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

Purpose of This Report

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

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

September 30, 2024

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

Schedule of Findings and Responses

Finding No. 2023-001 – 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 2022.

Auditee Response and Corrective Action Plan:

The Administration has drafted a proposed amendment to the SS law to include biennial certification/questionnaire that will require beneficiaries to fill out an eligibility questionnaire provided by the Social Security Administration (SSA). It will be submitted for next Congress hearing.

Let it be known also that the Administration has started to carry out the benefit eligibility survey in 2024 after its prolonged delay due to reasons beyond management control as has been reported in prior years’ audit, specifically, the COVID-19 pandemic and the resignation of a key staff. The survey is now ongoing as of this writing and will include all beneficiaries within the FSM as well as those residing abroad. The survey is expected to last until the end of 2024

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Unresolved Prior Year Findings

December 31, 2023

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