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

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2008 AND 2007

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

Years Ended December 31, 2008 and 2007
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
FSM Social Security Administration:

We have audited the accompanying statements of net assets of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, as of December 31, 2008 and 2007, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Administration's management. 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 *Governmental 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial status of the Administration as of December 31, 2008 and 2007, and the changes in financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Administration's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Administration taken as a whole. The accompanying Combining Statement of Net Assets (page 24) and Combining Statement of Changes in Net Assets (page 25) as of and for the year ended December 31, 2008 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Administration. These statements are the responsibility of the Administration's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2009, on our consideration of the Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

June 22, 2009

The following discussion and analysis provides an understanding of the FSM Social Security Administration's (FSMSSA) financial performance for fiscal year ended December 31, 2008. 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 the Federated States of Micronesia Public Law 2-74 and began its full operation on January 1, 1988. The FSMSSA provides retirement, disability and survivor benefits to the citizens of the Federated States of Micronesia.

Under Title 53 of the FSM Code, the authority to administer the FSMSSA is vested 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 Board is duly represented by the following individuals:

Garrison Irons	State of Chuuk	Chairman of the Board
Rose N. Nakanaga	State of Pohnpei	Vice Chairman of the Board
Nahoy G. Selifis	National Government	Member
Charles L. Chieng	State of Yap	Member
Jefferson Timothy	State of Kosrae	Member
Alexander R. Narruhn	Administrator	Member, Ex officio

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

Funding

The FSM Social Security system is financed by employer/employee contributions at a rate of 6% each, or a combined tax rate of 12% 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, 2008, the maximum quarterly taxable wage of $5,000 is subject to an increment of $1,000 and every 5 years thereafter for a maximum of $10,000 until January 1, 2028. Under Public Law 15-73 passed in March 2009, the tax rate will be increased from 6% to 7% (employee 7%, employer 7%) effective October 1, 2009.

Additional revenues are derived from interest 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 fiscal year 2008 based on projected income of $12M was $1.32M. However, as part of management's cost cutting measures, the budget was streamlined at $1.10M which is 9.2% of the projected income. The actual administrative costs incurred for FY2008 was $989,810, or a 10% surplus compared to the approved budget.

Significant Events

Effective January 1, 2007, the provisions of Public Law No. 14-86 were fully implemented. These are:

- Raise to 55 years of age the limit on wage earners adopting children so children adopted after December 1, 2006 by wage earners who are 55 years or more would not be eligible for survivor benefits; However, the Administrator is given the authority to determine if a wage earner can be eligible for benefits due to exceptional circumstances. The Administrator must satisfy himself or herself that future eligibility for social security benefits was not a significant factor in the decision to adopt. Please refer to the law for the exceptions;

- To be eligible, the minimum contribution of $2,500 is required for a retiree or individual who dies after December 31, 2006 and the minimum contribution of $1,500 for an individual who becomes disabled after December 31, 2006;

- Raise the minimum monthly benefit from $50 to $75;

- FSM citizens working abroad may participate in the Program through voluntary contributions of 12% of $5,000 wages per year; and

- Lump sum equal to employee's share shall be paid to non-citizens of the USA, Palau and Marshall Islands when they decide to leave the FSM permanently.

Public Law 15-73 was passed into law in March 2009 with the following amendments included:

- Clarify the definition of "employer" whether it is an individual, a partnership, a corporation, national government, a municipal or state government or organization or agency thereof, or any other type of business or non-business organization and its responsibilities as far as social security taxes are concerned in order to improve the FSMSSA's ability to collect social security taxes.

- Individuals who attain age 60 or die on or after January 1, 2010, must earn at least 50 quarters of coverage to be fully insured for death or old age benefits. This provision would decrease the FSMSSA's unfunded accrued liability by $6.2 million if it is passed into law.

- Change the requirements for disability benefits

    - Individuals who become disabled on or after January 1, 2010, must earn at least 45 quarters of coverage to be fully insured for disability benefits.

    - Individuals who become disabled on or after January 1, 2010, must also meet the definition of currently insured to qualify for a disability benefit. To be currently insured, one must have at least 20 quarters of coverage within the 25-quarter period ending with the quarter in which a person retires, dies or becomes disabled.

- Impose criminal penalties on an employer for intentional failure to pay taxes and identify the chief financial officer of the national government, state governments, municipal governments, or any agencies of any of the above as the individual liable to the program.

- Lien for taxes: All taxes, including penalties and interest accrued thereon, imposed or authorized under this subtitle and owed by a state or municipal government, or any agency thereof, shall be subject to a writ of garnishment of all moneys owed by the FSM National Government to any state or municipal government or any agency thereof, and such writ of garnishment shall have priority over any claim for such moneys in any manner by the particular state or municipal government or agency thereof.

- Retirement age

    - An individual aged 60 to 64 will receive 50% of his/her calculated retirement amount and work at the same time with no earnings test adjustment.

  However, we wish to point out that the Board of Trustees has been asked to approve a resolution during their 2nd regular meeting in Chuuk on June 24, 2009 to delay the implementation on this provision for three years while the administration further study a better solution to this challenge.

    - At age 65, he or she will receive 100% but the earnings test will apply if he or she works.

- Foreigners who are not citizens of the Marshall Islands, Palau or the U.S. will be paid in lump sums equal to their total contributions while employed in the FSM as of the date the employee turns 60 or dies. Further, they must be fully insured to be qualified for this lump sum benefit.

- Increase the tax rate from 6% to 7% (employee 7%, employer 7%) on October 1, 2009.

- Increase the tax rate from 7% to 7.5% (employee 7.5%, employer 7.5%) on January 1, 2013.

- Allow the FSMSSA to invest in BBB grade bonds.

- Allow for investments in the international market but only with those who exchange their currency in American Depository Receipts.

- Change the percentage of the market value of the fund that can be invested in any one industry group from ten to twenty-five percent; and to insert a security measure so as to ensure that the portfolio is being invested only on a recognized national or regional stock exchange, physical or electronic.

RESULTS OF OPERATIONS / CHANGES IN NET ASSETS

FSMSSA follows the calendar year as its fiscal year. The following table presents information about the FSMSSA Retirement Fund's results of operations for fiscal years 2008, 2007 and 2006.

	2008	2007	2006
Contributions	$ 12,488,497	$ 12,783,551	$ 12,049,988
Benefit Payments	(14,222,788)	(13,663,880)	(12,586,560)
Admin Expenses	(989,810)	(969,030)	(968,012)
Other	394,280	72,212	80,518
Operating Deficit	(2,329,821)	(1,777,147)	(1,424,066)
Investment Income/(Loss)	(8,274,430)	3,723,433	4,142,225
Change in Net Assets	(10,604,251)	1,946,286	2,718,159
Net Assets at beginning of year	47,321,507	45,375,221	42,657,062
Net Assets at end of year	$ 36,717,256	$ 47,321,507	$ 45,375,221

Contributions

	2008	2007	2006
Government	$ 6,658,920	$ 6,992,581	$ 6,388,593
Private	5,655,537	5,575,799	5,398,825
Judgment	28,099	16,226	63,990
Penalties & Interests	145,941	198,945	198,580
Total	$ 12,488,497	$ 12,783,551	$ 12,049,988

Contributions of $12,488,497 decreased -2%, or $(295,054) compared to the prior year. Contributions from the government sector decreased -5% partly due to reduction in force effected this year by the Chuuk State Government. Contributions from private sector increased 1%, judgement increased by 73%, and penalties & interest decreased -3%. The unfavorable variance in this year's total contributions was partially offset by the increase in the quarterly taxable wages from $5,000 to $6,000 effective January 01, 2008.

Total delinquent taxes collected in 2008 amounted to $3.7M.

Benefit Payments

	2008	2007	2006
Retirement	$ 8,309,308	$ 7,885,913	$ 7,251,790
Survivors	4,603,842	4,563,095	4,339,471
Disability	1,046,397	947,870	841,012
Lump Sum	263,241	267,002	154,287
Total	$ 14,222,788	$ 13,663,880	$ 12,586,560

Benefit payments of $14,222,788 increased 4%, or $558,908 compared to prior year. Retirement, survivors, and disability benefits increased by 5%, 1% & 10%, respectively. Lump sum benefits slightly decreased -1%. The unfavorable variance in this year's total benefits was due to increased in the number of beneficiaries from 6,249 in 2007 to 6,300 in 2008.

Administrative Expense

	2008	2007	2006
Budget	$ 1,104,132	$ 1,039,581	$ 1,007,412
Actual	$ 989,810	$ 969,030	$ 968,012
Surplus	$ 114,322	$ 70,551	$ 39,400
%	10%	7%	4%

Administrative expense of $989,810 increased 2%, or $20,780. The increased was mainly attributable to the employees' bi-annual conference held in December 2008 and was attended by all staff from the HQ and branch offices. No other items were individually material in comparison to the prior year.

As in the past, administrative expenses were lower than the approved budget, and this year the budget surplus was 10%, or $114,322.

Investment Income / (Loss)

	2008	2007	2006
Investment*	$ 33,715,607	$43,356,178	$42,622,090
Income /(Loss), net	$ (8,274,430)	$ 3,723,433	$ 4,142,225
Withdrawals	$ 1,400,000	$ 2,900,000	$ 1,250,000

*includes cash management fund

The FSMSSA investment portfolio was not spared from the impact of the global financial crisis. As a result, the investment suffered substantially this year after several years of consistently generating income and increasing its fair value. Total net investment loss of $8,274,430 was mainly attributable to the decline in the fair value in FY2008. A withdrawal of $1.4M from the investment was also made to supplement benefit payments and administrative expenses. The loss from investment accounted for 78% of the net assets decline this year.

Other Income

	2008	2007	2006
Approp. from FSM Govt.	$ 250,000	$ -	$ -
Prior Service Reimbursement	103,821	68,903	68,203
Miscellaneous Receipts	40,459	3,309	12,315
Total	$ 394,280	$ 72,212	$ 80,518

Other income of $394,280 increased 446%, or $322,068. The increase was attributable mainly to the funding received from the FSM National Government of $250,000. Prior Service Reimbursement increased 51% while miscellaneous receipts increased 1,122%.

NET ASSETS

FSMSSA Statement of Net Assets as of December 31, 2008, 2007 and 2006 follows:

	2008	2007	2006
Assets:			
Cash and equivalents	$ 3,162,579	$ 4,298,083	$ 1,417,209
Investments	31,637,481	39,618,679	41,806,275
Other current assets	1,997,740	3,468,620	2,220,018
Fixed assets, net	87,352	85,352	71,988
Total assets	36,885,152	47,470,734	45,515,490
Liabilities	167,897	149,227	247,619
Net Assets Held in trust for retirement, Disability and survivors; benefit	$ 36,717,255	$ 47,321,507	$ 45,267,871

Net assets for the retirement fund (non-inclusive of the Prior Service Fund) substantially declined due to operating deficits as a result of lower contributions against benefit payments and administrative expenses, as well as the negative performance of the investment. Operating deficits decreased the net assets by -5% while losses from investment decreased the net assets by -17%. As of December 31, 2008, net assets was registered at $36.7M compared to $47.3M as of December 31, 2007.

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 the Insular Affairs. For FY 2008, total funds received from the Prior Service Trust Fund Administration (PSTFA) amounted to $519,107 while benefits paid and administrative expenses totaled $292,964 and $103,922, respectively.

As of December 31, 2008, the Prior Service Fund has net assets of $119,139. Reimbursements increased 51% while benefit payments also increased by 51%.

Following are the Statement of Net Assets as of December 31, 2008, 2007, and 2006 and Statement of Changes in Net Assets for the years ended December 31, 2008, 2007, and 2006 of PSTFA.

Statement of Net Assets
(Prior Service fund)

	2008	2007	2006
Assets	$ 190,998	$ 30,378	$ 139,766
Liabilities	71,859	34,669	-
Net assets (deficiency)	$ 119,139	$ (4,291)	$ 139,766

Statement of Changes in Net Assets
(Prior Service Fund)

	2008	2007	2006
PSTFA reimbursements	$ 519,107	$ 344,513	$ 341,017
Benefit Payments	(292,964)	(313,995)	(241,696)
Admin expenses	(103,922)	(68,957)	(68,241)
Other	1,209	1,732	1,336
Change in net assets	123,430	(36,707)	32,416
Net assets at beginning of year	(4,291)	(32,416)	-
Net assets at end of year	$ 119,139	$ (4,291)	$ 32,416

Capital assets and Debt Administration

No significant changes in capital assets occurred during the years. Please see note 2F for additional information concerning capital assets.

FSMSSA has no long-term debt.

Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the report on the audit of FSMSSA's financial statements, which is dated May 28, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements and may be obtained from the contact information below.

Conclusion:

The FSMSSA retirement fund net assets decreased by $10.6M in FY2008. Benefit payments and administrative expenses were satisfied with cash from ss tax contributions supplemented with proceeds from withdrawal of investment and funding from the FSM National Government.

With increased benefit payments of 4% and 9%, respectively, for fiscal years 2008 and 2007, and unfunded accrued liability of $219.5M (as of Jan 1, 2006), management endeavors to improve its operation through the following:

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

We would also request supplemental funding from the FSM National Government to help with the weak cash flow being experienced during the past three years due to imbalances between contributions and benefits payments plus administrative expenses.

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.

2009 Outlook

The FSMSSA remains focused on increasing collections and reducing administrative expenses. Management has taken actions expected to increase collection from delinquent accounts. The engagement of a collection agent early 2009 should provide benefits towards collecting delinquent accounts. It is expected that the ongoing negotiation between management through its legal counsel and the delinquent employers on payment arrangement should provide additional revenue for the Program. Management also expects to realize approximately $88K in additional contributions due to the increase rate from 6% to 7% starting in the 4th quarter 2009. However, with all these positive expectations for a higher revenue, it is projected that collections from contributions are still insufficient to cover the higher benefits projected to be paid in 2009 including administrative expenses. Administrative expenses should approximate 2008 levels due to the cost cutting measures being implemented by management. The FSM infrastructure program is also expected to provide economic benefit to the FSMSSA by way of new employment to be created; however, as it takes time to put in place infrastructure spending, management do not expect additional revenue from the infrastructure program for 2009. Having said all of the above, management has projected an operating deficit of $2.0M in 2009. The FSM President promised financial support and has included in his budget $1.2M supplemental funding for the FSMSSA which now awaits approval by the FSM Congress.

The inclusion of BBB grade bonds and American Depository Receipts in the FSMSSA investment scheme should provide higher return on the investment portfolio. However, as financial experts predicts the current economic downturn to last throughout 2009, management do not expect dramatic growth in the value of the investment portfolio.

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Statements of Net Assets
December 31, 2008 and 2007

	2008	2007
ASSETS		
Cash and cash equivalents	$ 3,353,578	$ 4,328,461
Receivables, net:		
Contributions	1,797,223	3,284,107
Accrued interest	139,652	151,056
Prior Service Trust Fund	34,924	2,497
Other	18,969	19,652
Total receivables, net	1,990,768	3,457,312
Prepayments	6,972	11,308
Investments:		
Fixed income	16,524,883	14,056,831
Stocks	15,112,598	25,561,848
Total investments	31,637,481	39,618,679
Fixed assets, net	87,352	85,352
Total assets	37,076,151	47,501,112
LIABILITIES		
Accounts payable	173,503	144,915
Other liabilities and accruals	21,286	24,699
Accrued management fees	44,967	14,282
Total liabilities	239,756	183,896
Contingencies		
NET ASSETS		
Held in trust for retirement, disability and survivors' benefits	$ 36,836,395	$ 47,317,216

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA
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Statements of Changes in Net Assets
Years Ended December 31, 2008 and 2007

	2008	2007
Additions:		
Contributions	$ 12,488,497	$ 12,783,551
Investment income (loss):		
Net change in the fair value of investments	(8,037,625)	2,927,650
Interest and dividends	1,209	1,060,147
Total investment income (loss)	(8,036,416)	3,987,797
Less investment expense:		
Investment management and custodial fees	236,805	262,632
Net investment income (loss)	(8,273,221)	3,725,165
Other	931,973	436,813
Total additions	5,147,249	16,945,529
Deductions:		
Benefit payments:		
Retirement	8,439,906	8,029,590
Survivors	4,765,965	4,733,089
Disability	1,046,640	948,194
Lump sum	263,241	267,002
Total benefit payments	14,515,752	13,977,875
Refunds	18,586	20,088
Administrative	1,093,732	1,037,987
Total deductions	15,628,070	15,035,950
Change in net assets	(10,480,821)	1,909,579
Net assets at beginning of year	47,317,216	45,407,637
Net assets at end of year	$ 36,836,395	$ 47,317,216

See accompanying notes to financial statements.

(1) Organization

The Social Security Administration of the Federated States of Micronesia National Government was established by Public Law 2-74, passed on February 8, 1983, and began operations on October 1, 1987, for the purpose of providing retirement, disability and death benefits to qualified individuals and their survivors. The Administration is administered under the authority of a six-member board, five of whom are appointed by the President of the Federated States of Micronesia. The Administrator, who is selected by the board, serves as an ex-officio member. Additionally, the Administrator is responsible for processing, monitoring and distributing benefit claims under the Prior Service Benefits Program (see note 6). Accordingly, the Administrator established the Prior Service Fund to account for activities under this program.

(2) Summary of Significant Accounting Policies

A. Basis of Accounting

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

Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements 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, all net assets of the Administration are held in trust for retirement, disability and survivors' benefits.

B. Future Liabilities and Contributions

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

C. Cash and Cash Equivalents

For the purposes of the statements of net assets, cash and cash equivalents include cash on hand, and cash in checking and savings accounts as well as short-term investments in money market funds with a maturity date within three months of the date acquired.

(2) Summary of Significant Accounting Policies, Continued

D. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

E. Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies of the Administration are governed by its enabling legislation. The Board is required to engage one or more fund custodians to assume responsibility for the physical possession of the Administration's investments. Legally authorized investments are as follows:

(i) Government obligations - Obligations issued or guaranteed as to principal and interest by the FSM National Government and/or State governments of the Federated States of Micronesia or by the Government of the United States, provided that the principal and interest on each obligation are payable in the currency of the United States.

(ii) Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the Federated States of Micronesia or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is issued by an agency of the United States Government, the FSM National Government, or is rated in one of the three highest categories by two nationally recognized rating agencies. No investment under this heading shall exceed ten percent of the market value of the Fund or ten percent of the outstanding value of the issue at the time of purchase.

(iii) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the Federated States of Micronesia or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by the Administration's investment advisor at the time of purchase, that not more than five percent of the market value of the Fund shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of the Fund shall be invested in any one industry group.

(iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the Federated States of Micronesia or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent of all investments of the Fund.

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Deposits:

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1	Deposits that are federally insured or collateralized with securities held by the Administration or its agent in the Administration’s name;
Category 2	Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution’s trust department or agent in the Administration's name; or
Category 3	Deposits that are collateralized with securities held by the pledging financial institution’s trust department or agent but not in the Administration's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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, 2008 and 2007, the carrying amount of the Administration’s total cash and cash equivalents was $3,353,578 and $4,328,461, respectively, and the corresponding bank balances were $3,598,476 and $4,536,656, respectively. As of December 31, 2008 and 2007, bank deposits in the amount of $1,518,860 and $799,157, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2008 and 2007, bank deposits in the amount of $500,000 and $200,000, respectively, were FDIC insured. The Administration does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The remaining amounts of $2,079,616 and $3,737,499, respectively, represent short-term investments held and administered by the Administration’s trustees in accordance with various trust agreements. Based on negotiated trust and custody contracts, all of these investments were held in the Administration’s name by the Administration’s custodial financial institutions at December 31, 2008 and 2007.

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments:

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by the Administration or its agent in the Administration's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Administration's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Administration's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of December 31, 2008 and 2007, investments at fair value are as follows:

	2008	2007
Fixed income securities:		
Domestic fixed income	$ 16,054,705	$ 13,612,005
International fixed income	470,178	444,826
	16,524,883	14,056,831
Other investments:		
Domestic equities	15,112,598	25,561,848
	$ 31,637,481	$ 39,618,679

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

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

As of December 31, 2008, the Administration's investments in debt securities were as follows:

	Investment Maturities (In Years) Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	$ 144,727	$ 2,967,155	$ 413,396	$ 899,120	$ 4,424,398
Mortgage and asset-backed securities	250,000	415,771	328,468	87,380	1,081,619
U.S. Government agencies	-	-	-	6,461,162	6,461,162
Corporate notes	-	1,879,158	1,941,420	558,924	4,379,502
Municipal bonds	-	-	-	178,202	178,202
	$ 394,727	$ 5,262,084	$ 2,683,284	$ 8,184,788	$ 16,524,883

As of December 31, 2007, the Administration's investments in debt securities were as follows:

	Investment Maturities (In Years) Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	$ -	$ 3,028,492	$ 1,105,481	$ 1,017,075	$ 5,151,048
Mortgage and asset-backed securities	-	-	-	4,494,154	4,494,154
U.S. Government agencies	307,191	880,053	510,261	95,074	1,792,579
Corporate notes	-	1,151,837	919,374	523,761	2,594,972
Municipal bonds	-	-	-	24,078	24,078
	$ 307,191	$ 5,060,382	$ 2,535,116	$ 6,154,142	$ 14,056,831

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

The Administration's exposure to credit risk at December 31, 2008, was as follows:

Standard and Poors' Rating	Total	Domestic	International
AAA	$ 12,539,500	$ 12,367,532	$ 171,968
AA	647,720	647,720	-
AA-	121,300	41,037	80,263
A+	843,464	807,650	35,814
A	1,579,274	1,527,213	52,061
A-	660,453	530,381	130,072
BBB+	133,172	133,172	-
	$ 16,524,883	$ 16,054,705	$ 470,178

(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

The Administration's exposure to credit risk at December 31, 2007, was as follows:

Standard and Poors' Rating	Total	Domestic	International
AAA	$ 11,607,610	$ 11,487,870	$ 119,740
AA	376,437	376,437	-
AA-	450,331	372,092	78,239
A+	480,380	440,774	39,606
A	580,173	459,220	120,952
A-	401,312	315,022	86,289
BBB+	160,590	160,590	-
	$ 14,056,831	$ 13,612,005	$ 444,826

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, 2008 and 2007. The Administration's agent is not affiliated with or related to investment brokers. Accordingly, these investments are not exposed to custodial credit risk.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Administration. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. There was no concentration of credit risk for investments as of December 31, 2008 and 2007.

F. Fixed Assets

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

(2) Summary of Significant Accounting Policies, Continued

F. Fixed Assets, Continued

Capital asset activity for the years ended December 31, 2008 and 2007, was as follows:

	Estimated Useful Lives	January 1, 2008	Additions	Retirements	December 31, 2008
Motor vehicles	5 years	$ 130,603	$ 26,280	$ (10,258)	$ 146,625
Computer software and hardware	5 years	109,482	1,659	(250)	110,891
Office furniture, fixtures and equipment	5 years	110,800	4,054	(1,704)	113,150
Home furnishings	5 years	2,846	-	-	2,846
		353,731	31,993	(12,212)	373,512
Less accumulated depreciation		(268,379)	(29,993)	12,212	(286,160)
		$ 85,352	$ 2,000	$ -	$ 87,352

	Estimated Useful Lives	January 1, 2007	Additions	Retirements	December 31, 2007
Motor vehicles	5 years	$ 127,385	$ 13,168	$ (9,950)	$ 130,603
Computer software and hardware	5 years	106,194	24,347	(21,059)	109,482
Office furniture, fixtures and equipment	5 years	105,922	5,692	(814)	110,800
Home furnishings	5 years	3,377	1,064	(1,595)	2,846
		342,878	44,271	(33,418)	353,731
Less accumulated depreciation		(270,890)	(30,907)	33,418	(268,379)
		$ 71,988	$ 13,364	$ -	$ 85,352

G. Contributions

Contributions to the Fund are governed by the Federated States of Micronesia Social Security Act of 1983 which imposes a tax on the quarterly income of every employee not currently subject to the United States Social Security Administration or any other recognized social security system. There is imposed on the income of every applicable employee a tax equal to six percent of wages received.

Maximum quarterly taxable wages are currently $6,000. Every employer is required to contribute an amount equal to that contributed by employees.

Contribution revenues received during the years ended December 31, 2008 and 2007 are comprised of the following:

	2008	2007
Government employment	$ 6,658,920	$ 6,992,581
Private employment	5,655,537	5,575,799
Judgment	28,099	16,226
Penalties and interest	145,941	198,945
	$ 12,488,497	$ 12,783,551

(2) Summary of Significant Accounting Policies, Continued

H. Benefit Obligations

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

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

Benefits are paid monthly and are computed on an annual basis of 16.5% of the first $10,000 of cumulative covered earnings, plus 3.0% of the next $30,000, 2.0% of any earnings in excess of $40,000, and 1.0% of any earnings in excess of $302,500. As of December 31, 2008 and 2007, the minimum monthly benefit payment is $75.

I. New Accounting Standards

During fiscal year 2008, the Administration implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

I. New Accounting Standards, Continued

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Administration.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Administration.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Administration.

J. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of net assets 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.

K. 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 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 Assets Held in Trust

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

(4) Contingencies

The Administration is aware of liabilities of the fund related to retroactive benefit payments for wages not posted to the system due to an unmatched social security number or name provided by the employer, as well as a liability 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 taken as a whole.

In October 2006, the Administration obtained an actuarial valuation of the Retirement Fund as of January 1, 2006. The valuation reported actuarial accrued liabilities for the Retirement Fund of $262,187,000. As of December 31, 2008 and 2007, the Administration recorded total fund equity of $36,717,255 and $47,321,507, respectively, in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that the Administration should not increase future or current benefits until a long-term trend of decreasing the unfunded accrued liability is realized.

(5) Contributions Receivable

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 due primarily to noncompliance by employers.

(6) Prior Service Claims

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

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

(6) Prior Service Claims, Continued

The Administration assumed administrative functions and as of December 31, 2008 and 2007, had received an allocation of $519,107 and $344,513, respectively, from PSTFA of which $292,964 and $313,995 were paid as benefits during the years ended December 31, 2008 and 2007, 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, 2008 and 2007, the amount available for future benefit payments under the Prior Service Benefits Program amounted to $119,139 and $(4,291), respectively.

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

Combining Statement of Net Assets
December 31, 2008

	Retirement Fund	Prior Service Fund	Total
ASSETS			
Cash and cash equivalents	$ 3,162,579	$ 190,998	$ 3,353,578
Receivables, net:			
Contributions	1,797,223	-	1,797,223
Accrued interest	139,652	-	139,652
Prior Service Trust Fund	34,924	-	34,924
Other	18,969	-	18,969
Total receivables, net	1,990,768	-	1,990,768
Prepayments	6,972	-	6,972
Investments:			
Fixed income	16,524,883	-	16,524,883
Stocks	15,112,598	-	15,112,598
Total investments	31,637,481	-	31,637,481
Fixed assets, net	87,352	-	87,352
Total assets	36,885,152	190,998	37,076,151
LIABILITIES			
Accounts payable	136,568	36,935	173,503
Other liabilities and accruals	21,286	-	21,286
Accrued management fees	10,043	34,924	44,967
Total liabilities	167,897	71,859	239,756
NET ASSETS			
Held in trust for retirement, disability and survivors' benefits	$ 36,717,255	$ 119,139	$ 36,836,395

See Accompanying Independent Auditors' Report.

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

Combining Statement of Changes in Net Assets
Year Ended December 31, 2008

	Retirement Fund	Prior Service Fund	Total
Additions:			
Contributions	$ 12,488,497	$ -	$ 12,488,497
Investment income (loss):			
Net change in the fair value of investments	(8,037,625)	-	(8,037,625)
Interest and dividends	-	1,209	1,209
Total investment income (loss)	(8,037,625)	1,209	(8,036,416)
Less investment expense:			
Investment management and custodial fees	236,805	-	236,805
Net investment income (loss)	(8,274,430)	1,209	(8,273,221)
Other	412,866	519,107	931,973
Total additions	4,626,933	520,316	5,147,249
Deductions:			
Benefit payments:			
Retirement	8,309,308	130,598	8,439,906
Survivors	4,603,842	162,123	4,765,965
Disability	1,046,397	243	1,046,640
Lump sum	263,241	-	263,241
Total benefit payments	14,222,788	292,964	14,515,752
Refunds	18,586	-	18,586
Administrative	989,810	103,922	1,093,732
Total deductions	15,231,184	396,886	15,628,070
Change in net assets	(10,604,251)	123,430	(10,480,821)
Net assets at beginning of year	47,321,507	(4,291)	47,317,216
Net assets at end of year	$ 36,717,256	$ 119,139	$ 36,836,395

See Accompanying Independent Auditors' Report.

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

The Board of Trustees
FSM Social Security Administration:

We have audited the financial statements of the Federated States of Micronesia Social Security Administration (the Administration), as of and for the year ended December 31, 2008, and have issued our report thereon dated June 22, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Administration's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted other matters that we reported to management of the Administration in a separate letter dated June 22, 2009.

This report is intended for the information of the Board of Trustees, management, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

June 22, 2009