

June 22, 2009

The Board of Trustees
FSM Social Security Administration:

Dear Members of the Board:

We have performed an audit of the financial statements of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated June 22, 2009.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Administration is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under 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, have been described in our engagement letter dated September 30, 2008. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation of the Administration's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and
- To report on the Administration's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the the Board of Trustees are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Trustees of their responsibilities.

We considered the Administration's 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 do not express an opinion on the effectiveness of the Administration's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

AUDIT ADJUSTMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Administration's financial reporting process. Such proposed adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2008 financial statements.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Administration's 2008 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended December 31, 2008, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

SIGNIFICANT ACCOUNTING POLICIES

The Administration's significant accounting policies are set forth in Note 2 to the Administration's 2008 financial statements. During the year ended December 31, 2008, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Administration:

- Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local Governments.
- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions*, which 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, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which 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, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

The implementation of these pronouncements did not have a material effect on the financial statements of the Administration.

For the year ended December 31, 2009, the following pronouncements will be adopted by the Administration:

- In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which 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.

Management does not believe that the implementation of these statements will have a material effect on the financial statements of the Administration.

For the year ended December 31, 2010, the following pronouncements will be adopted by the Administration:

- In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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.

Management does not believe that the implementation of these statements will have a material effect on the financial statements of the Administration.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Administration's 2008 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in the Administration's 2008 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Administration's 2008 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2008.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Administration's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Administration is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix II, a copy of the representation letter we obtained from management.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions were held or were the subject of correspondence with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Administration's management and staff and had unrestricted access to the Administration's senior management in the performance of our audit.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated June 22, 2009, wherein no matters involving the Administration's internal control over financial reporting that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

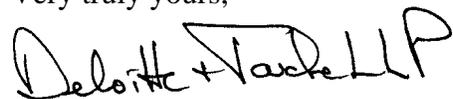
We have communicated to management, in a separate letter also dated June 22, 2009, control deficiencies and other matters that we identified during our audit

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

We wish to thank the staff and management of the Administration for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

Journal Entries - AJE

#	Name	Debit	Credit
Retirement Fund			
	1 AJE To reconcile net assets		
3000	Fund Balance	44	-
9403	Interest Income	-	44
Blank (4898)	Fund Balance: Appropriation from Government	250,000	-
Blank (4890)	Appropriation from FSMNG	-	250,000
		<u>250,044</u>	<u>250,044</u>

Prior Service Fund

	1 AJE To reconcile net assets		
3000	Fund Balance	519,107	-
4800	Revenue - Prior Service Trust Fund Allotment	-	519,107
		<u>519,107</u>	<u>519,107</u>

I have reviewed the adjustments above and authorize that they be recorded in the general ledger as of December 31, 2008. The adjustments are the result of errors and are not the result of fraud or fraud or illegal acts.


 Alexander Nantuin
 Administrator

6/26/09
 Date


 Terence Dwyer
 Controller

6/26/09
 Date



FEDERATED STATES OF MICRONESIA
SOCIAL SECURITY ADMINISTRATION

APPENDIX II

P. O. Box L

Kolonia, Pohnpei FM 96941

Tel: (691) 320-2706/2708/4407 Fax: (691) 320-2607

June 22, 2009

Deloitte & Touche
361 South Marine Corps Drive
Tamuning, Guam 96913

We are providing this letter in connection with your audits of the 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, which collectively comprise the Administration's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial status and changes in financial status of the Administration in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial status and changes in financial status in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the basic financial statements and additional information accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for cash and investment pools obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:
 - a. Deposits and investment securities are properly classified in category of custodial credit risk.
 - b. Capital assets, including infrastructures assets, are properly capitalized, reported, and, if applicable, depreciated.
 - c. Required supplementary information is measured and presented within prescribed guidelines.
 - d. Other supplementary information is measured and presented within prescribed guidelines.
2. The Administration has made available to you all:
 - a. Minutes of the meetings and summaries of actions of the Board of Trustees from January 01, 2008 to the date of this letter. Board meetings were held on the following dates: June 30 – July 2, 2008 and October 7 – 8, 2008.
 - b. Financial records and related data for all financial transactions of the Administration and for all funds administered by the Administration. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Administration and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any).
3. There has been no:
 - a. Action taken by the Administration's management that contravenes the provisions of federal laws and Federated States of Micronesia (FSM) laws and regulations.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
4. The Administration has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Administration and do not believe that the financial statements are materially misstated as a result of fraud.
5. We have no knowledge of any fraud or suspected fraud affecting the Administration involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.

6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Administration received in communications from employees, former employees, regulators, or others.
7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board ("FASB") Statement No. 5, *Accounting for Contingencies*, except as disclosed in note 4 to the basic financial statements.
8. We are responsible for compliance with Federated States of Micronesia laws, rules and regulations, and provision of grants and contracts relating to Administration's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Administration is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
9. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
10. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Administration's ability to initiate, record, process, and report financial information.
11. 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 the other risks. Settled claims have not exceeded commercial coverage in any of the past three years. Management is of the opinion that no material losses have been sustained as a result of this practice.

Except where otherwise stated below, matters less than \$220,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

12. There are no transactions that have been improperly recorded in the accounting records underlying the financial statements.
13. The Administration has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
14. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.

15. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
16. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*, except as disclosed in note 4 to the basic financial statements.
17. The Administration has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
18. There are no control deficiencies in the design or operation of internal control over financial reporting that could adversely affect the Administration's ability to initiate, record, process, and report financial information.
19. We are aware of our requirement to disclose to you any change in the Administration's internal control over financial reporting that occurred during the Administration's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Administration's internal control over financial reporting and we advise you that no such changes have occurred that are reported to you.
20. With regard to the fair value measurements and disclosures of certain assets, we believe that:
 - a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
 - b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America.
 - c. No events have occurred subsequent to December 31, 2008 that requires adjustment to the fair value measurements and disclosures included in the financial statements.

21. 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.
22. 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.
23. 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.
24. 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.

25. The following, to the extent applicable, have been appropriately identified and properly recorded and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - b. Guarantees, whether written or oral, under which the Administration is contingently liable.
26. We represent to you that, subsequent to December 31, 2008, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses).
27. The Administration is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
28. 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.
29. 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.
30. The Administration has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.
31. On September 15, 2005, an agreement was entered into between the Prior Service Trust Fund Administration (PSTFA) Board and the U.S. Department of Interior to delegate the Board's obligations to and responsibility for the enrollees eligible for the 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 Marian Islands. Based on the agreement, the Administration shall be entitled to an administrative fee not to exceed 20% of the share of allocated funds. The Administration assumed administrative functions and received an allocation of \$519,107 and \$344,513 from PSTFA as of December 31 2008 and 2007, respectively, of which \$292,964 and \$313,995 has been paid out as benefits for 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.

Deloitte & Touche
June 22, 2009
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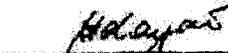
32. No events have occurred subsequent to December 31, 2008 to the date of the signature below that requires consideration as adjustments to or disclosures in the financial statements.



Alexander R. Maruhn
Administrator

6/26/09

Date



Teresita D'Amico
Controller

6/26/09

Date