

June 13, 2018

Board of Trustees
Federated States of Micronesia Social Security Administration

Dear Members of the Board of Trustees:

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 December 31, 2017, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 13, 2018.

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.

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,

Deloitte & Touche LLP

cc: The Management of Federated States of Micronesia Social Security Administration



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

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our engagement letter dated August 17, 2017. 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 whether the statement of fiduciary net position of the Administration as of December 31, 2017 and the related statement of changes in fiduciary net position for the year then ended December 31, 2017 (the “financial statements”), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) and perform specified procedures on the required supplementary information for the year ended December 31, 2017;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; 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, 2017 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 by management with the oversight of 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Administration’s preparation and fair presentation of the financial statements in order to design audit procedures that were 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

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 ordinarily based on knowledge and experience about past and current events and on assumptions about future events. During the year ended December 31, 2017, we are not aware of any significant changes in accounting estimates or in management’s judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. 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 A to Attachment I, have been recorded in the accounting records and are reflected in the 2017 financial statements.

In addition, listed in Appendix B to Attachment I, is a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

The Administration's significant accounting policies are set forth in Note 2 to the Administration's 2017 financial statements. During the year ended December 31, 2017, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Administration, which did not have material effect on the financial statements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

We have evaluated the significant qualitative aspects of the Administration's accounting policies, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE ADMINISTRATION

When audited financial statements are included in documents containing other information, such as Annual Reports, 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. In the event that the Administration issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the Administration's 2017 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 of Trustees.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Administration's 2017 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE SUBJECT OF 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 2017.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR 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.

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Board of Trustees.

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.

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 Attachment I, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We also have issued a separate report to you, also dated June 13, 2018, 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, which was based on the audit performed in accordance with *Government Auditing Standards*. Although we have included management's written response to our findings, such responses have not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We noted certain matters that we reported to management of the Administration in a separate letter dated June 13, 2018.

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June 13, 2018

Deloitte & Touche
P.O. Box 753
Kolonia, Pohnpei 96941

We are providing this letter in connection with your audits of the statements of fiduciary net position of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, as of December 31, 2017 and 2016, and the related statements of changes in fiduciary net position for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position and results of operations 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 preparation and fair presentation in the financial statements of the financial position of the Administration and fiduciary net position and changes therein in conformity with GAAP.
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the financial statements that are required by the Governmental Accounting Standards Board.
- c. The fair presentation of the additional information accompanying the financial statements that is presented for the purpose of additional analysis of the financial statements.
- d. 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
 - To prevent and detect fraud

- 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 pension and other postemployment benefit system and cash and investment pools obtained from the Government Finance Officers Association. Additionally, we agree with the recorded adjustments included in Appendix A.

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 financial statements referred to above are fairly presented in accordance with GAAP. In addition:
 - a. Deposits and investment securities are properly classified in category of custodial credit risk.
 - b. Capital assets, including infrastructure 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 provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Administration has made available to you:
 - a. All minutes of the meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared. Meetings were held for the following dates:

January 30-31, 2017 and February 6, 2017
September 8, 13, 15, 2017

April 27-28, 2017
December 4, 2017

For recent meetings for which minutes have not yet been prepared, nothing of significance was discussed that would require adjustments to, or disclosure in, the financial statements.

- b. All 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) and any other correspondence that has taken place with regulatory agencies.
4. There has been no:
 - a. Action taken by Administration management that contravenes the provisions of federal laws and Federated States of Micronesia laws and regulations, or of contracts and grants applicable to the Administration.
 - b. Communication with 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.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. 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.
7. 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.
 - c. Others, where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Administration's financial statements communicated by employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments that we are aware of that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. 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.
12. No organizations were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

13. We are responsible for compliance with FSM laws, rules and regulations, and provisions of grants and contracts relating to the 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.
14. There have been no unusual or infrequent events or transactions, occurring after the latest benefit information date but before issuance of the Administration's financial statements that might affect the usefulness of its financial statements when assessing the Administration's present and future ability to pay benefits.
15. We believe that the actuarial assumptions and methods used by the actuary for funding purposes and for measuring the unfunded actuarial accrued liability as of January 1, 2014 are appropriate in the circumstances.
16. 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 commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Administration is also exposed to investment risk. This risk is limited to diversification of the portfolio, establishment and monitoring of investment policies and guidelines, and monitoring of investment performance. In addition, investment consultants monitor the Administration's activities and advise the Board of Trustees.
17. Note 4 to the financial statements discloses all of the facts (i.e., significant conditions and events and management plans) of which we are aware that are relevant to Administration's ability to continue as a going concern. Specifically, Administration acknowledges that the funding ratio of the Retirement Fund as of October 1, 2014 is 16% and that these conditions indicate that Administration may be unable to meet its future benefit obligations.

Except where otherwise stated below, immaterial matters less than \$167,000, 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.

18. Except as listed in Appendix B, there are no transactions that have not been properly recorded and reflected in the financial statements.
19. The Administration has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
20. Regarding related parties:
 - a. We have disclosed to you the identity of the Administration's related parties and all the related-party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

21. In preparing the financial statements in conformity with GAAP, 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.
22. There are no:
 - a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
 - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 4 to the financial statements.
23. 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.
24. The Administration has complied with all aspects of contractual agreements that may have an effect on the financial statements.
25. No department or agency of the Administration has reported a material instance of noncompliance to us.
26. There have been no changes in the method or significant assumptions used to determine the amount of unfunded actuarial accrued liability.
27. We agree with the findings of the actuary in determining the amount of unfunded actuarial accrued liability and have adequately considered the qualifications of the actuary in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the actuary with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the actuary.
28. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

29. Regarding supplementary information:

- a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
- b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

30. Management is aware of its responsibility to disclose whether, subsequent to December 31, 2017, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred. We represent to you that no such changes or corrective action has so occurred.

31. Receivables recorded in the financial statements represent valid claims or other charges arising on or before the date of the statements of net assets and have been appropriately reduced to their estimated net realizable value.

32. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.

33. During fiscal year 2017, the Administration implemented the following pronouncements, which did not have material effect on the financial statements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.
34. In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
 35. In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
 36. In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
 37. In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
 38. In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
 39. In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

40. On September 15, 2005, an agreement was entered into between the PSTFA Board and the U.S. Department of the Interior to delegate the Board's obligations and responsibility for the enrollees eligible for Prior Service Benefits Program to the Social Security Systems of the Republic of the Marshall Islands, the Republic of Palau, the Federated States of Micronesia and the Retirement Fund of the Commonwealth of the Northern Mariana Islands. Based on the agreement, the Social Security Administration (SSA) of each Government shall be entitled to an administrative fee not to exceed 20% of the share of allocated funds. The Administration assumed administrative functions and as of December 31, 2017 and 2016, had received an allocation of \$312,100 and \$459,645, respectively, from PSTFA of which \$269,702 and \$314,287 were paid as benefits during the years ended December 31, 2017 and 2016, 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, 2017 and 2016, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$269,487 and \$280,537, respectively.
41. No events have occurred after December 31, 2017 but before June 13, 2018, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the Administration's financial statements.

Very truly yours,



Alexander R. Narruhn
Administrator



Teresita Dayao
Controller

APPENDIX A - POSTED ADJUSTMENTS AND FINANCIAL STATEMENTS RECLASSIFICATION ENTRIES

Audit Adjustments and Reclassifications
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Journal Entries - AJE

#	Name	Debit	Credit
	1 AJE To reconcile beginning fund balance.		
3000	Fund Balance		715.00
6810	Contingency & Miscellaneous	715.00	
		715.00	715.00
		715.00	715.00

Journal Entries - RJE

#	Name	Debit	Credit
	1 RJE Reclass Prior Service AR.		
1220	Accounts Receivable:Others		8,746.73
1225	Accounts Receivable:Prior Service Fund	8,746.73	
		8,746.73	8,746.73
		8,746.73	8,746.73

APPENDIX B - UNPOSTED ADJUSTMENTS AND FINANCIAL STATEMENT RECLASSIFICATION ENTRIES

Misstatement Description	Type of Misstatement	Balance Sheet			Income Statement
		Assets Dr (Cr)	Liabilities Dr (Cr)	Net Position Dr (Cr)	Revenue Expense Dr (Cr)
1. To accrue 2017 contributions subsequently received.	Factual	96,265			(96,265)
		<u>96,265</u>	<u>0</u>	<u>0</u>	<u>(96,265)</u>