Deloitte.

Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

December 19, 2008

The Board of Directors
Federated States of Micronesia Telecommunications Corporation

Dear Members of the Board:

We have performed an audit of the financial statements of the Federated States of Micronesia Telecommunications Corporation (the Corporation) as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated December 19, 2008.

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 Corporation 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service (RUS) Borrowers* have been described in our engagement letter dated September 30, 2008, a copy of which has been provided to you and is attached as Appendix II. 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 Corporation's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;

- 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;

- To report on the Corporation'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 September 30, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, and 7 CFR Part 1773; and

- To issue an independent auditors' management letter.

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 Directors 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 Directors of their responsibilities.

We considered the Corporation'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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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.

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 Corporation'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 September 30, 2008, 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

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 Corporation's financial reporting process. Such proposed adjustments, listed in Appendix III, have been recorded in the accounting records and are reflected in the 2008 financial statements. Those proposed adjustments that were not recorded by management are also included in the schedule described in the next paragraph.

In addition, we have attached to this letter, as Appendix IV, 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 Corporation's significant accounting policies are set forth in Note 2 to the Corporation's 2008 financial statements. During the year ended September 30, 2008, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Corporation:

- 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. 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. 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 Corporation.

For the year ended September 30, 2009, the following pronouncements will be adopted by the Corporation:

- In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which establishes standards for the measurement, recognition, and display of other post employments benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local government employers.

- In December 2006, GASB issued 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.

- 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 Corporation.

For the year ended September 30, 2010, the following pronouncements will be adopted by the Corporation:

- 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 Corporation.

OTHER INFORMATION IN THE ANNUAL REPORTS TO SHAREHOLDERS

When audited financial statements are included in documents containing other information such as the Corporation's 2008 Annual Report to Shareholders, 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 Corporation's 2008 Annual Report to Shareholders 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 Directors.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Corporation'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 Corporation's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Corporation is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix V, 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 regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions 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 Corporation's management and staff and had unrestricted access to the Corporation's senior management in the performance of our audit.

OTHER MATERIAL WRITTEN COMMUNICATIONS

We have issued a separate report to you, also dated December 19, 2008, on the Corporation's internal control over financial reporting and compliance based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate independent auditors' management letter report to you, also dated December 19, 2008, on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters.

CONTROL-RELATED MATTERS

We have identified, and included in the attached Appendix I, control deficiencies related to the Corporation's internal control over financial reporting and also other matters as of September 30, 2008 that we wish to bring to your attention.

The definition of a control deficiency is also set forth in Appendix I.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization 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 Corporation for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the Corporation's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

1. Reconciliation between information on the Switch and Avabill

Comment: Reconciliation between the information in the Switch and the Avabill Billing system was not completed in the current year.

Recommendation: Although management reviews and investigates the error call listing on a weekly basis, which indicates usage fees from the Switch that are not in the Avabill Billing system, management should consider reconciling the two systems.

2. Time Allocation

Comment: The Corporation is currently utilizing electronic timekeepers for payroll. Time allocation is based on the percentages established during the system set-up.

Recommendation: Management should require employees to indicate the actual time spent for each job code at the end of each pay-period, or at least change the time allocation on a quarterly basis.

3. On-time Disconnection

Comment: Customer requests to disconnect internet and phone charges were not done timely. This condition resulted in approximately $7,000 of forgiven charges.

Recommendation: Disconnection should be performed on a timely basis, to ensure that services provided are collectible.

4. Passwords

Comment: The Corporation does not require users to change their passwords. Management should employ a consistent network policy to ensure that passwords are changed periodically.

Recommendation: We recommend that the Corporation change its password policy and require that users change passwords every quarter.

5. Travel Advances

Comment: Employees are to submit expense reports within ten days of travel completion. As of September 30, 2008, approximately $6,443 represents unliquidated travel advances, aged thirty days and over. Further, an employee with long outstanding advances received a current travel advance.

Recommendation: Management should ensure that employees comply with the Corporation's travel policy. Further, additional travel advances should not be approved until outstanding advances have been liquidated.

6. Credit Card Usage

Comment: FSMTC credit cards were used for personal expenses.

Recommendation: The purchases were charged to the employee. The Corporation may wish to examine the appropriateness of this practice and determine if credit card use should be limited to business transactions.

7. Long Outstanding Accounts receivable

Comment: Approximately 50% of accounts receivable-trade and 92% of the accounts receivable-others represent receivable amounts aged 120 days and over.

Recommendation: Collection efforts should be increased. Further, the Corporation should consider reviewing its current collection policies and procedures for further improvement.

8. Activated Cards

Comment: Approximately $1 million of activated prepaid telcards were held in inventory at year end.

Recommendation: The Corporation should consider decreasing the amount of activated prepaid telcards held to minimize the risk of fraudulent activity.

9. Expenses

Comment: Two receipts for refreshments aggregating $750 did not contain details. Hence, we were not able to examine the validity of these expenses.

Recommendation: Expenses should be properly supported with detailed receipts and should represent valid business expenses.

10 . Prepaid Purchase Orders

Comment: A total of $44,006 representing 15% of the prepaid purchase order balance has been outstanding for almost a year.

Recommendation: Management should regularly follow up on the status of prepaid purchase orders to ensure that items or services are provided.

SECTION II – DEFINITION

The definition of a control deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

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 deficiency in *design* exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

September 30, 2008

Mr. Takuro Akinaga
General Manager
FSM Telecommunications Corporation
P.O. Box 1210
Kolonia, Pohnpei 96941

Dear Mr. Akinaga:

Deloitte & Touche LLP ("D&T" or "we" or "us") is pleased to serve as independent auditors for the FSM Telecommunications Corporation (the "Entity"). Mr. Daniel S. Fitzgerald will be responsible for the services that we perform for the Entity hereunder.

In addition to the audit services we are engaged to provide under this engagement letter, we would also be pleased to assist the Entity on issues as they arise throughout the year. Hence, we hope that you will call Mr. Fitzgerald whenever you believe D&T can be of assistance.

The services to be performed by D&T pursuant to this engagement are subject to the terms and conditions set forth herein and in the accompanying appendices. Such terms and conditions shall be effective as of the date of the commencement of such services.

Audit of Financial Statements and Other Reporting

Our engagement is to perform an audit in accordance with auditing standards generally accepted in the United States of America ("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 ("generally accepted government auditing standards"). The objectives of an audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on the fairness of the presentation of the Entity's basic financial statements and to disclaim an opinion on the required supplementary information for the year ending September 30, 2008, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects

- Express an opinion on whether the supplementary information that accompanies the basic financial statements, including the schedule of expenditures of federal awards, are presented fairly, in all material respects, in relation to the basic financial statements taken as a whole

- Report on the Entity'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 ending September 30, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*

- Report on the Entity's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement ("OMB Circular A-133").

Appendix A contains a description of our responsibilities and an audit under generally accepted auditing standards, generally accepted government auditing standards, and OMB Circular A-133.

Our ability to express an opinion and the wording thereof will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if the report to be issued by D&T as a result of this engagement requires modification, the reasons therefore will be discussed with the Board of Directors, the Office of the National Public Auditor ("ONPA") and the Entity's management.

Our report on the Entity's internal control and compliance and other matters will state that they are intended solely for the information and use of the ONPA, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Management's Responsibilities

Appendix B describes management's responsibilities for (1) the basic financial statements and all accompanying information, (2) representation letters, (3) independence matters relating to providing certain services, and (4) independence matters relating to hiring.

Responsibility of the Office of the National Public Auditor

As independent auditors of the Entity, we acknowledge that the ONPA is directly responsible for the appointment, compensation, and oversight of our work and, accordingly, except as otherwise specifically noted, we will report directly to the ONPA. You have advised us that the services to be performed under this engagement letter, including, where applicable, the use by D&T of affiliates or related entities, have been approved by the ONPA in accordance with the ONPA's established preapproved policies and procedures.

Communications with the Board of Directors and the Office of the National Public Auditor

Appendix C describes various matters that we are required by generally accepted auditing standards and generally accepted government auditing standards to communicate with the Board of Directors, the ONPA and management.

Fees

Our fees for these services will be based on the actual time spent at our standard hourly rates. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered as work progresses and are payable on presentation. Our engagement fees for the performance of this engagement have been separately submitted to the Office of the National Public Auditor. This estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

To the extent that certain circumstances, as listed in Appendix D, arise during this engagement, our fee estimate also may be significantly affected, and additional fees may be necessary. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate and discuss with you any additional fees, as necessary. Additional services provided beyond the scope of services described herein will be billed separately.

Access to Working Papers by Regulators

In accordance with the requirements of generally accepted government auditing standards, we are required to make all audit-related documents, including auditor's reports, working papers, and management letters, available to a federal agency or the Comptroller General of the United States upon their request for their regulatory oversight purposes. If such a request is made, we will inform you prior to providing such access. The working papers for this engagement are the property of D&T and constitute D&T's confidential information. We may request confidential treatment of D&T information. If we are requested to make photocopies of audit-related documents, we will maintain control over duplication of all information. The Entity hereby grants us permission to provide access to and to make and permit others to make photocopies of all audit-related documents, including auditor's reports, working papers and management letters, to representatives of the United States Government Accountability Office (GAO) or other appropriate government audit staff. D&T will require its personnel to supervise the photocopying of audit-related documents and may specify the location at which such documents may be photocopied. All professional and administrative services relating to such access (including photocopying) will be charged as an additional expense to the engagement. The working papers relating to this audit will be retained by us for a minimum of three years from the dates of the reports issued, or such longer period as required to satisfy legal and administrative requirements.

Inclusion of D&T Reports or References to D&T in Other Documents or Electronic Sites

If the Entity intends to publish or otherwise reproduce in any document our reports on the Entity's basic financial statements, or otherwise make reference to D&T in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular, or in a private placement memorandum), thereby associating D&T with such document, the Entity agrees that its management will provide D&T with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our reports, or the reference to D&T, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our reports in any such document would constitute the reissuance of our reports. The Entity also agrees that its management will notify us and obtain our approval prior to including our report on an electronic site.

Our engagement to perform the services described herein does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of the Entity. Any request by the Entity to reissue our reports, to consent to its inclusion or incorporation by reference in an offering or other document, or to agree to its inclusion on an electronic site will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request; fees for such services (and their scope) would be subject to the mutual agreement of the Entity and D&T at such time as D&T is engaged to perform the services and would be described in a separate engagement letter.

Other Services

D&T will also prepare draft financial statements that are based on management's chart of accounts (the "nonaudit service") as requested by you. The Entity agrees that it will comply with generally accepted government auditing standards, including, but not limited to, the following: (1) the Entity will designate a management level individual to be responsible and accountable for overseeing the nonaudit service, (2) the Entity will establish and monitor the performance of the nonaudit service to ensure that it meets management's objectives, (3) the Entity will make all decisions that involve management functions related to the nonaudit service and accept full responsibility for such decisions, and (4) the Entity will evaluate the adequacy of the nonaudit service performed and any findings that may result.

This engagement letter, including the appendices attached hereto and made a part hereof, constitutes the entire agreement between the parties with respect to this engagement and supersedes all other prior and contemporaneous agreements or understandings between the parties, whether written or oral, relating to this engagement.

If the above terms are acceptable and the services outlined are in accordance with your understanding, please sign the copy of this engagement letter in the space provided and return it to us.

Very truly yours,

Deloitte & Touche LLP

ACCEPTED AND AGREED TO BY:

FSM TELECOMMUNICATIONS CORPORATION

By: TAKURO AKINAGA

Title: PRESIDENT/CEO

Date: SEPTEMBER 30, 2008

APPENDIX A

DESCRIPTION OF OUR RESPONSIBILITIES AND AN AUDIT UNDER GENERALLY ACCEPTED AUDITING STANDARDS, GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS, AND OMB CIRCULAR A-133

FSM Telecommunications Corporation
Year Ending September 30, 2008

Our Responsibilities

Our responsibilities under generally accepted auditing standards and generally accepted government auditing standards include:

- Forming and expressing an opinion about whether the basic financial statements that have been prepared by management with the oversight of the Board of Directors and ONPA are presented fairly, in all material respects, in conformity with generally accepted accounting principles

- Reporting on the scope and results of testing of the Entity's internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements.

The audit of the basic financial statements does not relieve management, the Board of Directors and ONPA of their responsibilities.

Components of an Audit in Accordance With Generally Accepted Auditing Standards, Generally Accepted Government Auditing Standards, and OMB Circular A-133

An audit includes the following:

- Obtaining an understanding of the Entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the basic financial statements and to design the nature, timing, and extent of further audit procedures

- 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 Entity's internal control over financial reporting

- Consideration of internal control and compliance over major federal programs, as a basis for determining the Entity's internal control over compliance with federal laws and other laws and regulations

- Examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements

- Inquiring directly of the Board of Directors and of the Entity management regarding their views about the risk of fraud and whether the Board of Directors or the Entity management has knowledge of any fraud or suspected fraud affecting the Entity

- Assessing the accounting principles used and significant estimates made by management

- Evaluating the overall basic financial statement presentation

- Determining which federal programs should be considered major programs and thus be included within the scope of the compliance audit
- Evaluating the overall presentation of the schedule of expenditures of federal awards and other supplementary information in relation to the basic financial statements taken as a whole
- Evaluating the items to be included in the schedule of findings and questioned costs and the reasonableness of the summary schedule of prior year findings
- Obtaining and reporting the views of responsible officials concerning the findings, conclusions, and recommendations, as well as their planned corrective actions
- Preparing a schedule of findings and questioned costs
- Completing the auditor prepared sections of and signing the OMB Data Collection Form that summarizes our audit findings.

We will also perform tests of the Entity's compliance with certain provisions of laws, regulations, and the provisions of contracts and grant agreements. However, it is not our objective to provide an opinion on overall compliance with those provisions and, accordingly, we will not express such an opinion.

As part of our audit of compliance with the requirements of major federal programs, we will obtain an understanding of the Entity's internal control related to administering major federal programs and we will assess risk as required by OMB Circular A-133 for the purpose of establishing the nature, timing, and extent of auditing procedures necessary for expressing an opinion concerning compliance with laws and regulations related to major federal award programs.

Generally accepted accounting principles provide for certain required supplementary information ("RSI"), such as a management's discussion and analysis, to accompany the Entity's basic financial statements. As part of our engagement, we will apply certain limited procedures to the Entity's RSI. Those limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management will affirm to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with our procedures relating to it, we will disclaim an opinion on the RSI.

Supplementary information other than RSI, such as the schedule of expenditures of federal awards also accompanies the Entity's basic financial statements. We will subject all supplementary information that is financially oriented to the audit procedures applied in our audit of the basic financial statements and render our opinion on whether that information is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. We will disclaim an opinion on supplementary information that comprises nonaccounting information or accounting information not directly related to the basic financial statements. We will also make specific inquiries of management about supplementary information, which management will affirm to us in its representation letter.

<u>Reasonable Assurance</u>

We will plan and perform our audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud, and we will perform tests of the Entity's compliance with certain provisions of laws, regulations, contracts, and grants. However, because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with generally accepted auditing standards and generally accepted government auditing standards is designed to obtain reasonable, rather than absolute, assurance that the basic financial statements are free of material misstatement. An audit is not designed to detect error or fraud that is immaterial to the basic financial statements, nor is it designed to provide assurance on internal control or to identify deficiencies in internal control or to detect immaterial instances of noncompliance.

We will also plan and perform our audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that are applicable to the Entity's major federal programs could have a direct and material effect on each of its major federal programs. An audit of compliance includes examining, on a test basis, evidence about the Entity's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. Our audit does not provide a legal determination on the Entity's compliance with those requirements.

MANAGEMENT'S RESPONSIBILITIES

FSM Telecommunications Corporation
Year Ending September 30, 2008

Financial Statements, Internal Control, and Compliance

The overall accuracy of the basic financial statements and all accompanying information and their conformity with generally accepted accounting principles is the responsibility of the Entity's management. In this regard, management has the responsibility for, among other things:

- Selecting and applying the accounting policies.
- Establishing and maintaining effective internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements.
- Designing and implementing programs and controls to prevent and detect fraud.
- Identifying and ensuring that the Entity complies with the laws and regulations applicable to its activities and the provisions of contracts or grant agreements, and informing us of any known material violations of such laws, regulations, or provisions.
- Adjusting the basic financial statements to correct material misstatements.
- Making all financial records and related information available to us.
- Taking timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that we report.
- Having a process to track the status of audit findings and recommendations.
- Identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of our audit and the corrective actions taken to address significant findings and recommendations.
- Providing its view on our current findings, conclusions, and recommendations, as well as management's planned corrective actions, for our reports. The corrective action plan that the Entity develops for its OMB Circular A-133 reporting package may fully or partially satisfy this responsibility.
- Submitting the reporting package and OMB Data Collection Form to the Federal Audit Clearinghouse.

Representation Letters

We will make specific inquiries of the Entity's management about the representations (1) embodied in the basic financial statements and all accompanying information, (2) regarding the effectiveness of internal control, and (3) regarding the Entity's compliance with laws, regulations, and the provisions of contracts and grant agreements. Additionally, we will request that management provide to us the written representations the Entity is required to provide to its independent auditors under generally accepted auditing standards. As part of our audit procedures, we will request that management provide us with a representation letter that includes, among other things:

- Acknowledgment of management's responsibility for the preparation of the basic financial statements, all accompanying information, and for compliance with laws and regulations applicable to federal award programs

- Acknowledgment of management's responsibility for the design and implementation of programs and controls to prevent and detect fraud
- Affirmation of management's knowledge of any fraud or suspected fraud affecting the Entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the basic financial statements
- Affirmation of management's knowledge of any allegations of fraud or suspected fraud affecting the Entity
- Affirmation of management's belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the basic financial statements.

We will also request that management confirm certain representations made to us during our audit. The responses to those inquiries and related written representations of management required by generally accepted auditing standards are part of the evidential matter that D&T will rely on in forming its opinion on the Entity's basic financial statements. Because of the importance of management's representations, the Entity agrees to release and indemnify D&T, its subcontractors, and their respective personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

<u>Process for Obtaining Preapproval of Services</u>

Management is responsible for the coordination of obtaining the preapproval of ONPA, in accordance with ONPA's preapproval process, for any services to be provided by D&T to the Entity.

<u>Independence Matters Relating to Providing Certain Services</u>

In connection with our engagement, D&T and management, and the Office of the National Public Auditor will assume certain roles and responsibilities in an effort to assist D&T in maintaining independence. Management of the Entity will ensure that the Entity has policies and procedures in place for the purpose of ensuring that the Entity will not act to engage D&T or accept from D&T any service that under American Institute of Certified Public Accountants (AICPA), generally accepted government auditing standards, or other applicable rules would impair D&T's independence. All potential services are to be discussed with Mr. Daniel S. Fitzgerald.

<u>Independence Matters Relating to Hiring</u>

Management will coordinate with D&T to ensure that D&T's independence is not impaired by hiring former or current D&T partners, principals, or professional employees in a key position, as defined in the AICPA Code of Professional Conduct that would cause a violation of the AICPA Code of Professional Conduct or other applicable independence rules. Any employment opportunities with the Entity for a former or current D&T partner, principal, or professional employee should be discussed with Mr. Daniel S. Fitzgerald before entering into substantive employment conversations with the former or current D&T partner, principal, or professional employee.

For purposes of the preceding four paragraphs, "D&T" shall mean Deloitte & Touche LLP and its subsidiaries; Deloitte Touche Tohmatsu, its member firms, the affiliates of Deloitte & Touche LLP, Deloitte Touche Tohmatsu, and its member firms; and, in all cases, any successor or assignee.

COMMUNICATIONS WITH THE BOARD OF DIRECTORS AND OFFICE OF THE NATIONAL PUBLIC AUDITOR

FSM Telecommunications Corporation
Year Ending September 30, 2008

Fraud and Illegal Acts

We will report directly to the Board of Directors and the ONPA any fraud (whether caused by senior management or other employees) of which we become aware that causes a material misstatement of the basic financial statements. We will report to senior management any fraud perpetrated by lower level employees of which we become aware that does not cause a material misstatement of the basic financial statements; however, we will not report such matters directly to the Board of Directors and ONPA, unless otherwise directed by the ONPA.

We will inform the appropriate level of management of the Entity and determine that the Board of Directors and ONPA are adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal acts are clearly inconsequential.

Internal Control Matters

In planning the audit, we will follow up on known significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the current audit to determine the effect on our risk assessment and audit procedures.

We will report directly to the Office of the National Public Auditor, the Board of Directors and management all significant deficiencies and material weaknesses identified during the audit as required by AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, and generally accepted government auditing standards. Our written communication will identify those matters considered by D&T to be significant deficiencies and those that are considered by D&T to be material weaknesses.

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 basic financial statements that is more than inconsequential will not be prevented or detected. 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 basic financial statements will not be prevented or detected.

We will also communicate certain matters to the Board of Directors, ONPA and management, including our responsibilities for testing and reporting on internal control over financial reporting and on compliance with laws, regulations, and provisions of contracts or grant agreements, both for our financial statement audit and our compliance audit of major federal programs.

<u>Other Matters</u>

We will communicate to the Board of Directors, ONPA and management the following, if any of the following are identified during our audits: material noncompliance with laws, regulations, and provisions of contracts or grant agreements related to major programs; certain known questioned costs; fraud affecting federal awards; abuse that is material to a federal program; and other federal award audit findings as required by generally accepted government auditing standards and OMB Circular A-133.

Generally accepted auditing standards and generally accepted government auditing standards do not require us to design procedures for the purpose of identifying other matters to communicate with Entity senior management. However, we will communicate to the Board of Directors and Entity senior management matters required by AU 380, *The Auditor's Communication with those Charged with Governance*. In addition, as required by generally accepted government auditing standards, our report on internal control and on compliance and other matters will include our findings of material violations of provisions of contracts and grant agreements and material abuse.

In planning the audit, we will follow up on known significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the current audit to determine the effect on our risk assessment and audit procedures.

As part of our audit, we will be alert to situations or transactions that could be indicative of abuse as defined by generally accepted government auditing standards, which involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. This determination of abuse is subjective; generally accepted government auditing standards do not require us to provide reasonable assurance of detecting abuse, and we will not design the audit to detect abuse. However, if we become aware of indications of material abuse, we will apply procedures to ascertain whether abuse has occurred. Under generally accepted auditing standards and generally accepted government auditing standards, we may be required to directly report fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse to outside parties.

We may also communicate to the Board of Directors, ONPA and Entity senior management on internal control, compliance, or other matters we have observed and possible ways to improve the Entity's operational efficiency and effectiveness or otherwise improve its internal control or other policies and procedures.

APPENDIX D

CIRCUMSTANCES AFFECTING TIMING AND FEE ESTIMATE

FSM Telecommunications Corporation
Year Ending September 30, 2008

The fees quoted for the audit are based on certain assumptions. Circumstances may arise during the engagement that may significantly affect the targeted completion dates or our fee estimate. As a result, changes to the fees may be necessary. Such circumstances include but are not limited to the following:

Audit Facilitation

1. Changes to the timing of the engagement at the Entity's request. Changes to the timing of the engagement usually require reassignment of personnel used by D&T in the performance of services hereunder. However, because it is often difficult to reassign individuals to other engagements, D&T may incur significant unanticipated costs.

2. All audit schedules are not (a) provided by the Entity on the date requested, (b) completed in a format acceptable to D&T, (c) mathematically correct, or (d) in agreement with the appropriate Entity records (e.g., general ledger accounts). D&T will provide the Entity with a separate listing of required schedules, information requests, and the dates such items are needed.

3. Significant delays in responding to our requests for information such as reconciling variances or providing requested supporting documentation (e.g., invoices, contracts, and other documents).

4. Deterioration in the quality of the Entity's accounting records during the current-year engagement in comparison with the prior-year engagement.

5. A completed trial balance, referenced to the supporting analyses and schedules and basic financial statements, is not provided timely by the Entity's personnel.

6. Draft basic financial statements with appropriate supporting documentation are not prepared accurately and timely by the Entity's personnel.

7. Electronic files in an appropriate format and containing the information requested are not provided by the Entity on the date requested for our use in performing file interrogation. D&T will provide the Entity with a separate listing of the required files and the dates the files are needed.

8. The engagement team, while performing work on the Entity's premises, is not provided with access to the Internet via the Entity's existing network for purposes of conducting the engagement.

Significant Issues or Changes

9. Significant deficiencies or material weaknesses in the design or operating effectiveness of the Entity's internal control over financial reporting or internal control over federal programs are identified during our audit that result in the expansion of our audit procedures.

10. A significant level of proposed audit adjustments is identified during our audit.

11. A significant number of drafts of the basic financial statements are submitted for our review, or we identify a significant level of deficiencies in the draft basic financial statements.

12. Significant new issues or changes as follows:

    a. Significant new accounting issues

    b. Significant changes in accounting policies or practices from those used in prior years

    c. Significant events or transactions not contemplated in our budgets

    d. Significant changes in the Entity's financial reporting process or Information Technology systems

    e. Significant changes in the Entity's accounting personnel, their responsibilities, or their availability

    f. Significant changes in auditing standards

    g. Significant changes in the Entity's use of specialists, or the specialists or their work product does not meet the qualifications required by generally accepted auditing standards for our reliance upon their work.

13. Changes in audit scope caused by events that are beyond our control.

<u>Payment for Services Rendered</u>

14. Without limiting its rights or remedies, D&T may halt or terminate its services entirely if payment is not received within 30 days of the date of the invoice.

FSMTC
Proposed Audit Adjustment and Reclassifications
09/30/08

Journal Entries - AJE

#	Name	Debit	Credit
	1 AJE Allowance for Doubtful accounts - 5343 (Posted)		
11810	UNCOLLECTIBLE RESERVES	-	108,000.00
53010	UNCOLL. RESERVE-TELECOM	108,000.00	-
	To record additional allowance	108,000.00	108,000.00
	1 CAJE Accounts Receivable - 2346 (Posted)		
11800	ACCOUNTS RECEIVABLE	19,161.33	-
11800	ACCOUNTS RECEIVABLE	11,262.24	-
11800	ACCOUNTS RECEIVABLE	19,326.97	-
50100	COIN-PHONES REVENUE-PNI	-	19,161.33
50010-20	BASIC AREA REVENUE-PNI	-	11,262.24
50010-20	BASIC AREA REVENUE-PNI	-	19,326.97
	To reverse PY's balances and reconcile differences	49,750.54	49,750.54
	2 CAJE AP - Official Clearing - 2346 (Posted)		
67285	GENERAL/ADMIN.-OTHERS	16,565.24	
40162	OFFICIAL CALL CLEARING	-	16,565.24
	Official call activities incurred at 9.30.08 billed at 10.01.08	16,565.24	16,565.24
	3 CAJE To record annual leave accrual - 6240 (Posted)		
41201	ACCRUED VACATIONS/HOLIDY	-	58,818.49
67284	SALARIES & WAGES BENEFTS	58,818.49	-
	To record annual leave	58,818.49	58,818.49

#	Name	Debit	Credit
	1 RJE Investment - 5210 (Posted)		
14101	LONG TRM/INVEST/S.BARNEY	1,000,000.00	-
14102	LONG TRM/INVESTMENT-PROJ.FUND	-	1,000,000.00
	To reclass investment		1,000,000.00
	2 RJE Long Term Debt - 6341 (Posted)		
42101	REA NOTES	20,170.00	-
41302	RUS-CURRENT/NOTE PAYABLE	-	20,170.00
		20,170.00	20,170.00
	To reclass current portion of LTD		

Note: Based on our understanding, we believe that the adjustments are not due to fraud or illegal acts. Rather, such constitute misstatements.

CONCURRENCE

We have reviewed and approve the above based on information we have provided to you.

CONCURRED BY:

Signature of Representative

12-24-08
Date

Mattias Lawrence
Print Name and Title

FSMTC
Appendix A
September 30, 2008

Appendix A

	ASSETS Dr (Cr)	LIABILITIES Dr (Cr)	EQUITY Dr (Cr)	INCOME STATEMENT Dr (Cr)
Known Misstatements				
PAJE <1>				
Dr. Carrier revenue				61,803
Dr. Carrier expense				(2,059)
Cr. Carrier payable		2,059		
Cr. Accrued earnings telex	(61,803)			
To record differences in carrier receivable and payables				
PAJE <5>				
Dr. Official Call Clearing AP account		16,565		
Cr. Unbilled accounts receivable	(16,565)			
To reverse payable balance for FSMTC Sept toll charges				
PAJE <3>				
Dr. Accounts Receivables	55,257			
Cr. Advances to customers		(55,257)		
To reclassify credit balances				
Total known misstatements	(23,111)	(36,633)	0	59,744
PAJE <2>				
Dr. Fixed assets	28,001			
Cr. Interest expense				(28,001)
To capitalize additional interest expense				
PAJE <4>				
Dr. FM Domain Users Revenue				19,628
Cr. Accrued earnings - others	(19,628)			
To reverse overstated accrued earnings				
Total likely misstatements	8,373	0	0	(8,373)
Grand Total	(14,738)	(36,633)	0	51,371

We have reviewed and approve the above based on information we have provided to you.

CONCURRED BY:

Signature of Representative

12-24-08
Date

Mattias Lawrence
Print Name and Title

FSM Telecommunications Corporation

December 19, 2008

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, Guam 96913-3911

Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the Federated States of Micronesia Telecommunications Corporation (the Company) as of and for the years ended September 30, 2008 and 2007, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

a. The fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

b. The fair presentation of the Management's Discussion and Analysis, which is required supplementary information required by the Governmental Accounting Standards Board (GASB), accompanying the financial statements that is presented for the purpose of additional analysis of the financial statements.

c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.

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.

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 audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

a. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified.

b. Deposit and investment securities are properly classified in category of custodial credit risk.

customerservice@mail.fm

c. Required supplementary information is measured and presented within prescribed guidelines.

2. The Company has made available to you all:

   a. Financial records and related data for all financial transactions of the Company and for all funds administered by the Company. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Company 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.

   b. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

   c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

3. There have been no communications from 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. There has been no action taken by the Company management that contravenes the provisions of federal laws and Federated States of Micronesia's laws and regulations or of contracts and grants applicable to the Company.

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 A.

6. The Company 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 Company 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 Company involving (a) management, (b) employees who have significant roles in the Company's internal control over financial reporting, or (c) others if 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 Company received in communications from employees, former employees, analysts, regulators, short sellers, or others.

9. 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*.

10. We are responsible for compliance with local, state and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Company'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 the laws and regulations. The Company is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

11. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.

12. We have:

    a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program.

    b. Complied, in all material respects, with the requirements identified above in connection with federal awards.

    c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.

13. 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.

14. We have implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The implementation of this pronouncement did not have a material impact on the financial statements.

15. In April 2004, GASB issued Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other post-employment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Company.

16. In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. 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. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Company.

17. In September 2007, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. 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. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Company.

18. In December 2007, GASB issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. 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 provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Company.

19. In May 2008, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this Statement are effective for periods beginning after June 15, 2008. Management does not believe the implementation of this statement will have a material effect on the financial statements of the Company.

20. In June 2008, 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 Company.

Except where otherwise stated below, matters less than $46,800 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.

21. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

22. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

23. The following, to the extent applicable, have been appropriately identified, 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 Company is contingently liable.

24. 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.

25. 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.

26. There are no:

b. 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.

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*.

27. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any assets been pledged as collateral except for assets financed under RUS funding and pledged as collateral for such loans.

28. The Company has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

29. During the year ended September 30, 2008, the Company entered into various contracts for construction and expansion of its facilities and services. Approximately $2,008,667 is outstanding under the contracts as of September 30, 2008.

30. No events have occurred subsequent to September 30, 2008 that require consideration as adjustments to or disclosures in the financial statements.

31. The Company does not purchase insurance for its Outside Plant. As most of these items are underground, the Company is of the opinion that losses from such, if any, will be minimal. Therefore, the Company is self insured for Outside Plant and all other risks not encompassed in the forgoing. Management is of the opinion that no material losses have resulted from this practice.

32. There have been no significant reductions in insurance coverage, and there have been no settlement in excess of insurance coverage for the past three years.

33. Receivables recorded in the financial statements represent valid claims against debtors for sales or its property, plant and equipment. The effect of this change in accounting estimate was not material to the financial statements.

34. During the year ended September 30, 2005, the Company reassessed the estimated useful lives of property, plant and equipment. The effect of this change in accounting estimate was not material to the financial statements.

35. In the ordinary course of business, claims have been filed against the Company. Management does not believe that the plaintiffs will prevail and the ultimate outcome is currently not determinable. Therefore, no provision has been recorded in the accompanying financial statements for losses, if any, that may result.

Takaro Akinaga, President/CEO

12/19/08
Date

Mattias Lawrence, Senior Vice President/CFO

12/19/08
Date