

**FEDERATED STATES OF MICRONESIA  
TELECOMMUNICATIONS CORPORATION**

**(A COMPONENT UNIT OF THE FEDERATED STATES  
OF MICRONESIA NATIONAL GOVERNMENT)**

**INDEPENDENT AUDITORS'  
MANAGEMENT LETTER REPORT**

**YEAR ENDED SEPTEMBER 30, 2012**

## **INDEPENDENT AUDITORS' MANAGEMENT LETTER REPORT**

Chairman  
Board of Directors  
Federated States of Micronesia Telecommunications Corporation

We have audited the financial statements of the Federated States of Micronesia Telecommunications Corporation (the Corporation) for the year ended September 30, 2012, and have issued our report thereon dated December 31, 2012. We conducted our audit in accordance with 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*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Corporation for the year ended September 30, 2012, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Management is responsible for establishing and maintaining internal control over financial reporting. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

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

7 CFR Part 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2) and related party transactions. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

We noted certain matters that were reported to the management of the Corporation in a separate letter dated December 31, 2012. Other reports furnished to the management includes our Independent Auditors' Report on the financial statements, and our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, all dated December 31, 2012.

Our comments on specific aspects of internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

#### COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding the Corporation's internal control over financial reporting that we consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- The process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts, and;
- The materials control.

#### COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

Compliance with laws, regulations, contracts, and grant agreements is the responsibility of the Corporation's management. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grant agreements. The procedures we performed are summarized as follows:

- No procedures were performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement, or leases between the borrower and an affiliate of the Corporation for the year ended September 30, 2012 as no such contracts, agreements or leases were so executed.

- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2011, represented by the borrower as having been submitted to RUS, is in agreement with the Corporation's records in all material respects. The borrower has not submitted or prepared a Form 479 as of September 30, 2012. The borrower represents that it will now submit Form 479, including adjustments arising from the September 30, 2012 audit to RUS.

COMMENTS ON OTHER ADDITIONAL MATTERS

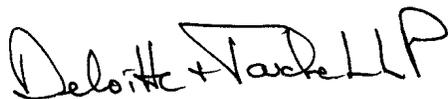
In connection with our audit of the financial statements of the Corporation, nothing came to our attention that caused us to believe that the Corporation failed to comply with respect to:

- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR Part 1773.33(c)(3) and (4);
- Approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5); and
- The disclosure of material related party transactions, in accordance with the Financial Accounting Standards Board Accounting Standards Codification 850, "Related Party Disclosures," for the year ended September 30, 2012, in the financial statements referred to in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole.

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This report is intended solely for the information and use of the Board of Directors, management, the RUS and supplemental lenders, and the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than those specified parties.



December 31, 2012