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December 30, 2014

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 (FSM) Telecommunications Corporation (the Corporation) as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated December 30, 2014.

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, GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS AND 7 CFR PART 1773

Our responsibility under generally accepted auditing standards, 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 2, 2014, a copy of which has been provided to you. 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 financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2014 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 financial statements is presented fairly, in all material respects, in relation to the 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, 2014 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' report on compliance with aspects of contractual agreements and regulatory requirements.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board 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 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 Corporation'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 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 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 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 2014 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, 2014, 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 Attachment I, have been recorded in the accounting records and are reflected in the 2014 financial statements. Those proposed adjustments that were not recorded by management are also included in the appendix described in the next paragraph.

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. We have attached to this letter, as Appendix A to Attachment II, 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 1 to the Corporation's 2014 financial statements. During the year ended September 30, 2014, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Corporation:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.

- GASB Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

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

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Corporation.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement 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 2014 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in the Corporation's 2014 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.

The audited financial statements for the year ended September 30, 2014 were not included in documents containing other information such as the Corporation's Annual Report to the date of this letter.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Corporation's 2014 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 2014.

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

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR 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.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated December 30, 2014, 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, which was based on the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate independent auditors' report on compliance with aspects of contractual agreements and regulatory requirements to you, also dated December 30, 2014, 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 also communicated to management, in a separate letter also dated December 30, 2014, other matters that we identified during our audit.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and the Office of the FSM National Public Auditor 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

FSM Telecommunications Corporation
Summary of Corrected Misstatements
September 30, 2014

GL Code	Name	Debit	Credit
	1 AJE To recognize grant income		
45520	COMPACT FUND [SBOC]	1,361,108.00	-
73691	OTHER NON-OPERATING INCOME	-	1,361,108.00
	To recognize grant income	1,361,108.00	1,361,108.00
	2 AJE To recognize grant income		
45520	COMPACT FUND [SBOC]	32,450.00	-
73691	OTHER NON-OPERATING INCOME	-	32,450.00
	To recognize grant income	32,450.00	32,450.00
	3 AJE To adjust prepayment		
13301	PREPAID PURCHASE ORDERS	-	27,257.50
68000	COST OF SALES	27,257.50	-
	To adjust prepayment relative to received purchased items within 9/30/14.	27,257.50	27,257.50
	4 AJE To adjust prepayment		
11900	ACCOUNT RECEIVABLE-OTHERS	21,154.52	-
11910	RESERVED FOR UNCOLLECTIBLES-OTHERS	-	21,154.52
13301	PREPAID PURCHASE ORDERS	-	34,889.81
53010	UNCOLL. RESERVE-TELECOM	21,154.52	-
66220	DIRECTORY EXPENSE	3,795.00	-
68000	COST OF SALES	4,281.79	-
63101	INTERNET EQUIP-EXPENSE	5,658.50	-
	To adjust prepayment and provide allowance to the long outstanding receivables.	56,044.33	56,044.33
	5 AJE To adjust due from carriers		
11837	DUE FROM MCI-USA	7,315.53	-
40117	DUE TO MCI-USA	-	16,911.57
41208	ACCRUED LIAB-PHONE OUTBN	9,596.04	-
	To adjust Due to MCI - USA.	16,911.57	16,911.57
	6 AJE To capitalize interest cost		
20030	PUC-SHORT TERM W/O-OTHERS	69,918.66	-
75100-20	INTEREST ON FUND DEBTS [RUS]-PNI	-	69,918.66
	To capitalize interest cost for PUC.	69,918.66	69,918.66

Signed:

Jesephine Salmon - Senior Accountant

ATTACHMENT II

FSM Telecommunications Corporation

December 30, 2014

Deloitte & Touche LLP
361 SOUTH MARINE CORPS DRIVE
TAMUNING GU, 96913

We are providing this letter in connection with your audits of the statements of net position of the Federated States of Micronesia (FSM) Telecommunications Corporation (the Corporation) as of September 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, which collectively comprise the Corporation's basic financial statements 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 Corporation in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with GAAP.

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and supplemental schedules accompanying the financial statements that are 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. 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 a business-type entity obtained from the Government Finance Officers Association.

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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 conformity with GAAP. In addition:

    a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

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

    c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

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

    e. Federal awards expenditures have been charged in accordance with applicable cost principles.

2. The Corporation has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Corporation has provided you:

    a. Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared, including:

    December 4, 2013 January 17, 2014 April 22, 2014
    June 23, 2014

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

4. There has been no:

   a. Action taken by Corporation management that contravenes the provisions of federal laws and FSM laws and regulations, or of contracts and grants applicable to the Corporation.

   b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

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 Corporation has not performed a 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 Corporation 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 Corporation involving:

   a. Management.

   b. Employees who have significant roles in internal control over financial reporting.

   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 Corporation received in communications from employees, former employees, regulators, 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 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. We are responsible for the fair presentation of the supplemental schedules accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements.

Except where otherwise stated below, matters less than $50,000 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 basic financial statements.

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

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

15. 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 Corporation is contingently liable.

16. 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.

17. 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.

18. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency except as disclosed in note 7 to the financial statements.

b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except is disclosed in note 8 to the financial statements.

19. The Corporation 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 except as disclosed in note 7 to the financial statements.

20. The Corporation has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance except as disclosed in note 7 to the financial statements.

21. No department or agency of the Corporation has reported a material instance of noncompliance to us.

22. The Corporation has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.

23. No events have occurred after September 30, 2014 but before December 30, 2014, the date the financial statements were available to be issued that require consideration as adjustments to, or disclosures in, the financial statements.

24. Management has disclosed whether, subsequent to September 30, 2014, 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.

25. The Corporation is responsible for determining and maintaining the adequacy of the allowance for uncollectible receivables, as well as estimates used to determine such amounts.

26. During fiscal year 2014, the Corporation implemented the following pronouncements, implementation of which did not have a material effect on the financial statements:

    - GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.

    - GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans.

    - GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

27. In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Corporation.

28. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Corporation.

29. In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.

30. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before September 30, 2014 and have been appropriately reduced to their estimated net realizable value.

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

32. Provision has been made, where applicable, to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Corporation and do not include any items consigned to it or any items billed to customers.

33. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Corporation has been discovered.

34. The Corporation 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 Corporation has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

35. 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.

36. Regarding supplementary information:

    a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP.

    b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.

    c. The methods of measurement and presentation of the supplementary information has not changed from those used in the prior period.

Very truly yours,

Signed: _____
John Sohl
President/CEO

Signed: _____
Rodelio Pulmano
Senior Vice President/CFO

APPENDIX A

	Assets		Liabilities		Equity		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
To correct understatement of accrued RUS interest				(15,003)			15,003	
To reclassify revenues for proper presentation							91,062	(91,062)
To reclassify supplies from inventory to non-current assets	128,976	(128,976)						
To correct overstatement of accrued GRT payable			14,944					(14,944)
	128,976	(128,976)	14,944	(15,003)			106,065	(106,006)