



OFFICE OF THE FSM PUBLIC AUDITOR

Press Release # 2017-04

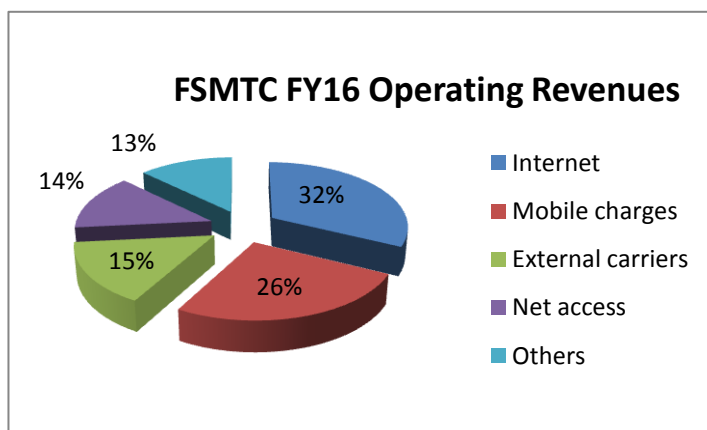
Annual Financial Audit on the FSM Telecommunications Corporation for Fiscal Year 2016

The Office of the National Public Auditor (ONPA) announces the release of the financial audit on the FSM Telecommunications Corporation for the fiscal year ended September 30, 2016. This is a part of the Single Audits for the FSM Government, which is outsourced to Deloitte & Touche under the oversight of the ONPA. A digital copy of the audit is available for public review online at www.fsmopa.fm and printed copies are available at the ONPA in Palikir, Pohnpei.

Background

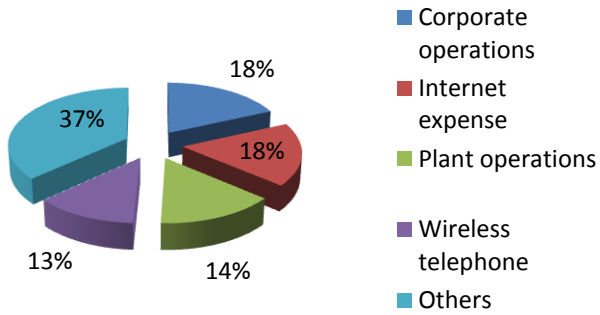
The FSM Telecommunications Corporation (FSMTC), a component unit of the FSM National Government, was established as a public corporation under Title 21 of the FSM Code, purpose of which is to provide telecommunications services throughout the FSM. Services provided include Plain Old Telephone Services (POTS), National and International Overseas Calls, Internet Services, Mobile Cellular Services, and Cable Television. The FSMTC is governed by a 5-member Board of Directors appointed by the President and the Governors of each State, along with the Chief Executive Officer (CEO) serving as the ex-officio member of the Board. All board members are appointed and subject to the advice and consent of the FSM Congress.

Financial Results



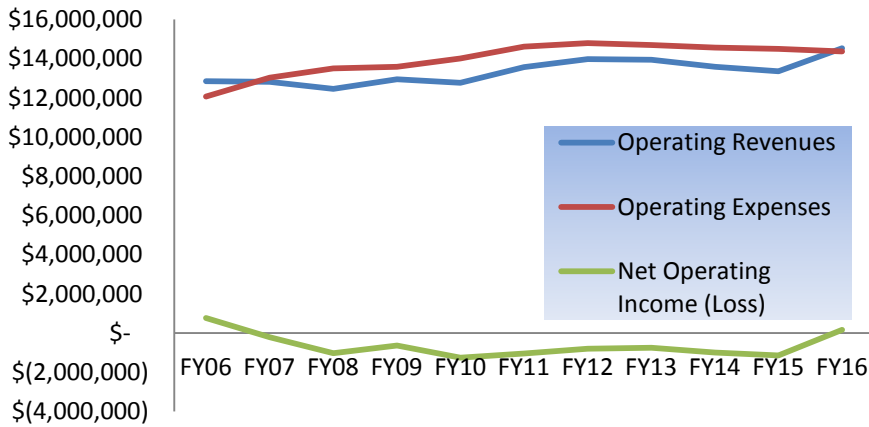
The sources of revenue for FSMTC included internet services, mobile charges and net external carrier revenues, all of which amounted to \$10,672,959, or 73% of the total operating revenues. For FY2016, the total operating revenues totaled \$14,538,582, an increase of \$1,172,655 (or 8.77%) compared to prior year. This increase was due primarily to increases in the three major sources of revenue, along with the recovery of bad debts.

FSMTC FY16 Operating Expenses



For FY2016, corporate operations totaled \$2,628,916 (18%); internet expense, \$2,558,206 (18%); plant operations, \$2,095,493 (14%); wireless telephone, \$1,809,928 (13%); and the remaining 37% totaling \$5,274,736 came from other expenses such as cable and wire, consumer operations, general support, central office, ICTV expense, earth station and terminal equipments for the Corporation. In total, operating expenses for FY2016 amounted to \$14,367,279, a decrease of \$134,256 compared to prior year.

Net Operating Income (Loss)



In FY2016, the Corporation was able to increase its operating revenues while managing its operating expenses, resulting in a net operating income of \$171,303, an improvement in operations, as it marked the first time the Corporation achieved a net operating income since FY2006.

The following table summarizes the financial condition and operations for FY2016, FY2015 and FY2014:

	FY2016	FY2015	FY2014
Assets			
Current assets	\$6,003,412	\$4,855,372	\$5,331,003
Advance payments to vendor	201,250	332,450	-
Property, plant and equipment	37,543,038	40,960,722	44,541,583
Other non-current assets	2,705,663	2,851,915	2,998,167
Total Assets	\$46,453,363	\$49,000,459	\$52,870,753
Liabilities			
Current liabilities	4,844,550	4,388,943	4,235,342
Non-current liabilities	23,181,573	25,702,670	27,612,721
Total liabilities	28,026,123	30,091,613	31,848,063
Net Position			
Net investment in capital assets	11,391,032	14,500,344	17,359,448
Unrestricted	7,036,208	4,408,502	3,663,242
Total Net Position	18,427,240	18,908,846	21,022,690
Total liabilities and net position	\$46,453,363	\$49,000,459	\$52,870,753
Revenues, Expenses and			

Changes in Net Position			
Operating revenues	\$14,538,582	\$13,365,927	\$13,579,504
Operating expenses	14,367,279	14,501,535	14,574,642
Net operating income (loss)	171,303	(1,135,608)	(995,138)
Operating grants	563,730	512,677	-
Interest income and others	87,043	(32,248)	71,265
Interest expense	(1,303,682)	(1,458,665)	(1,326,136)
Net non-operating loss	(481,606)	(2,113,844)	(2,250,009)
Capital grants	-	-	1,393,558
Net position beginning of year	18,908,846	21,022,690	21,879,141
Net position, end of year	\$18,427,240	\$18,908,846	\$21,022,690

Audit Findings and Opinion

Findings: Finding No. 2016-001 - RUS Loan Noncompliance (Repeated Finding, FY13 to FY15)

The Corporation was in noncompliance with Section 5.12, TIER Requirement, of the RUS Loan Agreement regarding the required TIER rate to be maintained. Management was fully aware of the situation as to the non-compliance to TIER required by RUS, due to the fact that the Corporation has been experiencing losses for the last 9 years including FY2016. The Board of Directors has noticed the weight of the RUS loan financing to the financial condition of the Corporation and has given priority in resolving the issue.

Opinion: The Corporation received an **UNMODIFIED** opinion for its FY2016 Single Audits. An unmodified opinion means that the entity's financial statements were fairly and appropriately presented, in all material respects, and in accordance with Generally Accepted Accounting Principles (GAAP). Deficiencies in internal control over financial reporting were identified during the course of the audit, which included the following:

1. Income from expired telcards has not been periodically analyzed.

Observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting were reported as follows:

1. No evidences were provided that proves that the Corporation undergoes periodic penetration tests.

Board of Directors: Leonard Isotoff (Chuuk), Chairman; John Sigrah (Kosrae), Vice Chairman; Ricky Cantero (National), Secretary; Richard Adams (Pohnpei), Member; James Gilmar (Yap), Member; John Sohl (FSMTC), Ex-Officio.

Management: John Sohl, CEO; Fredy Perman, COO; Rodelio Pulmano, CFO.

The Single Audit for FSMTC covering FY-2016 was conducted by Deloitte & Touche under a contract awarded by ONPA. This is a required audit as FSMTC is a component unit of the FSM National Government. The CPA firm and FSMTC management have completed the FY-2016 annual audit months before the June 30, 2017 deadline.

For a more detailed discussion and analysis of the FY16 Single Audit Report for FSMTC, please refer to the full audit report, which can be accessed by visiting our office website at www.fsmopa.fm.

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