

**FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION**

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

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH ASPECTS OF CONTRACTUAL
AGREEMENTS AND REGULATORY REQUIREMENTS
FOR TELECOMMUNICATIONS BORROWERS**

YEAR ENDED SEPTEMBER 30, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS
OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS
FOR TELECOMMUNICATIONS BORROWERS**

Board of Directors
Federated States of Micronesia Telecommunications Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia Telecommunications Corporation (the Corporation), which comprise the statement of net position as of September 30, 2019, the related statements of revenue, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 20, 2019. In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and responses related to our audit have been furnished to management.

In connection with our audit, we noted that the Corporation failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the Rural Utilities Service (RUS) policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below:

RUS Loan Agreement

Criteria: Section 5.12, *TIER Requirement*, of the RUS Loan Agreements state the required Times Interest Earned Ratio (TIER) rate that is to be maintained. Such provision has also been stated under the preliminary review of "B" Loan letter dated November 19, 2008 requiring at least 1.5 commencing December 31, 2012.

Condition: Per examination of RUS Form 479 for the year ended December 31, 2018, submitted by the Corporation on February 18, 2019, the TIER rate reported was (0.09), which is less than the criteria.

Auditee Response:

Based on the audited result in operations for fiscal year 2019, FSM Telecom have already met RUS TIER requirement as of September 30, 2019. By December 31, 2019, which is RUS reporting date, FSM Telecom, without a doubt will meet such requirement.

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This report is intended solely for the information and use of the Board of Directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 20, 2019

