FEDERATED STATES OF MICRONESIA TELECOMMUNICATIONS CORPORATION

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH OMB CIRCULAR A-133

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION

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Years Ended September 30, 2003 and 2002

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INDEPENDENT AUDITORS' REPORT

Chairman
Board of Directors
Federated States of Micronesia
Telecommunications Corporation:

We have audited the accompanying statement of net assets of the FSM Telecommunications Corporation (FSMTC), a component unit of the Federated States of Micronesia National Government, as of September 30, 2003 and 2002, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of FSMTC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of FSMTC as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of FSMTC taken as a whole. The accompanying schedule of operating expenses (page 15) is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the management of FSMTC. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

As described in note 12 to the financial statement, FSMTC has implemented a new financial reporting model as required by the provision of GASB Statement No. 34. FSMTC has restated the 2002 financial statements to reflect the changes.

The Management's Discussion and Analysis on pages 3-4 is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The September 30, 2001 financial statements of Island Cable Television (ICTB) – Pohnpei, a 50% investee of FSMTC were not audited and the impact of this matter on the 2001 financial statements and on the impact on goodwill was uncertain. In 2002, FSMTC rendered the carrying value of the investment to a $0 balance. Therefore, an opinion on the 2002 financial statements is different than as previously reported.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2003, on our consideration of FSMTC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte + Touche LLP

December 22, 2003

FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION

Management Discussion and Analysis
Year Ending September 30, 2003

The following discussion and analysis of the financial performance and activity of the Federated States of Micronesia Telecommunications Corporation (FSMTC) is to provide an introduction and understanding of the basic financial statements of the FSMTC for the year ended September 30, 2003. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The FSMTC is a public corporation of the Federated States of Micronesia National Government and is the primary provider of telecommunications service through out Federated States of Micronesia (FSM) to points outside of FSM. The FSMTC also provides cable television services in the state of Kosrae. It is under the governance of five-member Board of Directors that was appointed by President and the Governor of each states, which has oversight over both the FSMTC and Cable TV in Kosrae. The General Manager, who is the Chief Executive Officer, is also an ex-officio non-voting member of the Board.

The FSMTC provides telecommunication services which include Plain Old Telephone Services (POTS) to little over 10,000 subscribers. Other telecommunications services provided are National and International Overseas Calls, Internet Services, Mobile Cellular Services, and Cable Television in State in Kosrae. The FSMTC relies on calls made to and from countries outside of FSM, which account for approximately one-half of the FSMTC's generating resources.

The FSMTC launched its mobile cellular services in the State of Pohnpei on November 1st, 2002. The mobile cellular services for State of Yap was launched on February 17th, 2003, followed by State of Kosrae in April 14th, 2003, and lastly mobile cellular service was launched in State of Chuuk on November 4th, 2003. The mobile services account for $454,033 or 4% of the FSMTC generated revenues in FY2003 and, as of this writing, the total mobile cellular subscribers is 5,083.

The following table summarizes the financial condition and operations of the FSMTC for 2003 and 2002:

	2003	2002
Assets:		
Utility plant, net	$ 43,552,406	$ 42,802,867
Current assets	14,656,077	15,332,145
Other assets	960,726	1,017,498
	$ 59,169,209	$ 59,152,510
Liabilities and Net Assets:		
Long-term debt, net	$ 25,978,382	$ 26,669,055
Current portion of long-term debt	675,620	642,731
Other current liabilities	834,438	1,218,348
Net assets	31,680,769	30,622,376
	$ 59,169,209	$ 59,152,510

	2003	2002
Revenues, Expenses and Changes in Net Assets:		
Operating revenues	$ 11,247,373	$ 10,623,858
Operating expenses	10,157,094	8,652,609
Net operating revenues	1,090,279	1,971,249
Interest income and other	1,112,243	1,079,394
Interest expense	(1,144,129)	(2,749,737)
Net nonoperating expenses	(31,886)	(1,670,343)
Increase in net assets	$ 1,058,393	$ 300,906

Overall there were only minor changes in the balance sheet components except for "cash and cash equivalents", "Accounts receivable - Trade" and "Other Receivables & Prepaid accounts" in the current assets. In spite of the increase in revenue in Fiscal Year 2003 over Fiscal Year 2002 by $623,515, the FSMTC's aggregated cash balance for Fiscal Year 2003 increased by $171,343 (6.5%) above Fiscal Year 2002. The increased in cash and cash equivalents was attributable from the fund transfer from investment account for payments for the construction of the Mobile cellular project and the Management Information System. The current accounts receivable decreased by approximately $419,999 due to allowance for bad debt during Fiscal Year 2003. The most of the increase in Other Receivables and Prepaid Accounts of $158,588 was attributed from the increased in the Prepaid Purchase Orders from venders outside from FSM.

It should also be noted that on June 9, 2003, the FSMTC Board of Directors authorized the amount of $1,032,000 to be written off. However, the management is currently working with Mr. Matt Mix, Attorney at Law, in collecting this amount.

The FSMTC investments in capital assets, net of accumulated depreciation, amount to $43,552,406 in Fiscal Year 2003 over $42,802,867 in Fiscal Year 2002. Most of this increase was attributable from the increased in payments for Construction Under Progress.

The current liabilities decreased by approximately $351,021 (or 18.9%). The primary causes were a significant pay-down of FSMTC's short term debt used for credit line used for supply purchase.

During fiscal year ended September 30, 2003, the FSMTC's Notes Payable with the US Department Agriculture (Rural Urban Services) was amounted to $26,654,002 of which $675,620 classified as current portion of the note. The principal amount paid during fiscal year 2003 was $657,784.

The interest on Funded Debts paid during Fiscal Year 2003 was $1,246,200 as compared $1,209,257 in Fiscal Year 2002, net of capitalized interest of $304,337 and $173,173 in Fiscal Year 2003 and 2002, respectively.

There was also a restatement of FY 2002 financial statements so as to ensure their compliance with GASB Statement 34. This restatement allows the reader to make a comparison between the FY 2003 financials and the FY 2002 financials.

FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION

Statement of Net Assets
September 30, 2003 and 2002

	2003	2002
ASSETS		
Current assets:		
Cash	$ 2,811,443	$ 2,640,102
Time deposits	204,189	101,745
Investments in securities	8,476,577	9,188,394
Accounts receivable, net of an allowance for doubtful accounts of $2,525,423 and $2,959,768 in 2003 and 2002, respectively (note 9)	1,030,028	1,450,027
Receivables from carriers, net	898,784	841,130
Advances to employees	32,736	30,630
Inventory	416,726	354,696
Accrued interest and other accrued earnings	442,362	540,777
Other receivables and prepaid expenses	343,232	184,644
Total current assets	14,656,077	15,332,145
Investment-Intelsat	910,114	910,114
Investment-ICTV Pohnpei	-	97,929
Deferred charges	50,612	9,455
Property, plant and equipment, net	43,552,406	42,802,867
	$ 59,169,209	$ 59,152,510
LIABILITIES AND NET ASSETS		
Current liabilities:		
Note payable-current portion	$ 675,620	$ 642,731
Accounts payable, trade	52,077	389,944
Deferred revenue-debit cards	97,030	83,322
Accrued leave payable	123,132	113,464
Other payables and accrued expenses	562,199	631,618
Total current liabilities	1,510,058	1,861,079
Long-term portion of note payable	25,978,382	26,669,055
Total liabilities	27,488,440	28,530,134
Net assets:		
Investment in capital assets, net of related debt	16,898,404	15,491,081
Unrestricted	14,782,365	15,131,295
Total net assets	31,680,769	30,622,376
Commitments and contingencies		
	$ 59,169,209	$ 59,152,510

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION

Statements of Revenue, Expenses, and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	2003	2002
Operating revenues:		
Overseas tolls	$ 4,702,482	$ 4,501,170
Net access	2,327,233	2,276,810
External carriers	1,896,583	2,099,053
Internet	1,670,097	1,505,228
Mobile charges	454,033	-
ICTV Kosrae cable charges	102,410	61,822
Miscellaneous	94,535	179,775
Total operating revenues	11,247,373	10,623,858
Operating expenses:		
Corporate operations	1,851,736	1,415,717
Consumer operations	1,415,789	1,322,167
Cable and wire	1,201,359	1,306,139
Earth station	1,068,486	939,899
Plant operations	816,135	748,101
General support	766,938	812,565
Central office	720,030	758,269
Internet expense	637,057	622,780
Bad debts	597,976	-
Terminal equipment	588,585	607,762
Wireless telephone - Ulithi	315,138	6,194
ICTV expense	177,865	113,016
Total operating expenses	10,157,094	8,652,609
Earnings from operations	1,090,279	1,971,249
Nonoperating revenues (expenses):		
Compact funding-Section 215 (a)(2)	-	582,361
Interest income - general	27,397	73,394
Interest expense	(1,046,200)	(1,209,257)
Gain on sale of fixed assets	13,422	10,456
Investment (loss) earnings - ICTV-Pohnpei	(97,929)	16,110
Investment earnings (loss), net	1,071,424	(1,214,877)
Recovery of bad debts	-	397,073
Goodwill impairment loss	-	(325,603)
Total nonoperating expenses, net	(31,886)	(1,670,343)
Increase in net assets	1,058,393	300,906
Total net assets at beginning of year	30,622,376	30,321,470
Total net assets at end of year	$ 31,680,769	$ 30,622,376

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION

Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	2003	2002
Cash flows from operating activities		
Cash received from customers	$ 11,582,269	$ 9,493,213
Cash paid to suppliers and employees for goods and service	(4,863,906)	(2,671,016)
Cash paid to employees	(3,026,393)	(2,775,277)
Net cash used in operating activities	3,691,970	4,046,920
Cash flows from noncapital financing activities		
CFSM appropriations-215 (a) (2)	-	582,361
Cash flows from capital and related financing activities		
Repayments of notes payable	(657,784)	(625,890)
Additions to property, plant and equipment	(3,636,646)	(5,639,905)
Proceeds from sale of fixed assets	13,422	10,456
Interest paid on loan payable	(1,046,200)	(1,209,257)
Net cash used for capital and related financing activitie	(5,327,208)	(7,464,596)
Cash flows from investing activities		
Withdrawals from time deposits	-	2,944,313
Withdrawals from investment	2,400,000	-
Purchase of time deposits	(720,204)	-
Interest earned - investments	126,783	(13,084)
Net cash provided by investing activitie	1,806,579	2,931,229
Net increase in cash	171,341	95,914
Cash at beginning of year	2,640,102	2,544,188
Cash at end of year	$ 2,811,443	$ 2,640,102
Reconciliation of earnings from operations and other expens to net cash provided by operating activities		
Earnings from operations	$ 1,090,279	$ 1,971,249
Adjustments to reconcile earnings from operation to net cash provided by operating activities		
Depreciation and amortization	2,887,137	2,541,489
Recovery of bad debts	-	397,073
(Increase) decrease in assets		
Accounts receivable, ne	419,999	(758,598)
Receivables from carriers	(57,654)	(270,660)
Advances to employees	(2,106)	(10,212)
Inventory	(62,030)	(176,595)
Deferred charges	(41,157)	(7,805)
Other receivables and prepaid expenses	(158,588)	19,746
Increase (decrease) in liabilities		
Accounts payable, trade	(337,867)	296,797
Deferred revenue-debit cards	13,708	6,419
Accrued leave payable	9,668	(3,381)
Other payables and accrued expenses	(69,419)	41,398
Net cash provided by operating activitie	$ 3,691,970	$ 4,046,920

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The Federated States of Micronesia (FSM) Telecommunications Corporation (the Corporation) is established as a public corporation under the laws of the Federated States of Micronesia, the purpose of which is to provide telecommunications services, except radio and television broadcasting, throughout the FSM and to points outside the FSM. The Corporation began its operations in October 1983 and is a component unit of the Federated States of Micronesia National Government.

Basis of Accounting

Funding was made available under Section 215(a)(2) and Section 215(b)(2) of the Compact of Free Association and through loan funds from the United States Department of Agriculture (USDA) Rural Utilities Service (RUS).

The Corporation operates as a component unit-proprietary fund type of the FSM National Government. A component unit-proprietary fund is used to account for those operations that are financed and operated in a manner similar to private business and where the board decides that the determination of revenues earned, costs incurred and/or net income is necessary for management. Because it is a component unit-proprietary fund, the Corporation uses the accrual basis of accounting. Expenses are recorded by function in order to meet the reporting requirements as imposed by the RUS. Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Corporation has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The Corporation maintains a chart of accounts as prescribed by the Uniform System of Accounts for telecommunication companies of the United States Federal Communications Commission's Rules.

For the year ended September 30, 2003, the Corporation adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34) as amended by GASB Statement No. 37 and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- Invested in capital assets, net of related debt:

  Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

(1) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

- Restricted:

    - Nonexpendable – Net assets subject to externally imposed stipulations that require the Corporation to maintain them permanently.
    - Expendable – Net assets whose use by the Corporation is subject to externally imposed stipulations that can be fulfilled by actions of the Corporation pursuant to those stipulations or that expire by the passage of time.

- Unrestricted:

  Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Net Assets

Net assets represent the residual interest in the Corporation's assets after liabilities are deducted and consist of three sections: invested in capital assets, net of related debt, restricted and unrestricted. Net assets invested in capital assets, net of debt include capital assets, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve. Net assets are reported as restricted when constraints are imposed by third parties or by legislation. The Corporation has no restricted net assets at September 30, 2003 and 2002.

All other net assets are unrestricted.

Cash

For the purposes of the balance sheets and the statements of cash flows, cash is defined as cash in bank checking and savings accounts, money market funds and commercial paper with original maturities of three months or less from the date of acquisition. Time deposits with original maturities in excess of three months are separately classified. The Corporation does not require collateralization of its cash in excess of Federal Deposit Insurance Corporation (FDIC) limits; therefore $300,000 as of September 30, 2003 and 2002 is insured by the FDIC. The remaining balances are uninsured and uncollateralized.

Investments in Securities

Investments in securities are carried at market value in accordance with the requirements of Governmental Accounting Standards Board Statement No. 31.

Generally, the Corporation can invest in bonds and other indebtedness of the U.S. and in preferred or common stock of any corporation created or existing under the laws of the U.S. or any U.S. state, territory, or commonwealth. Additionally, a maximum of 10% of the total portfolio may be invested in non-U.S. equities.

(1) Summary of Significant Accounting Policies, Continued

Investments in Securities, Continued

Investments in securities comprise the following as of September 30, 2003 and 2002:

	2003	2002
Equities	$ 4,924,654	$ 4,629,458
U.S. government obligations	1,000,986	1,596,159
Corporate bonds and others	2,550,937	2,962,777
	$ 8,476,577	$ 9,188,394

Net investment income (loss) comprises the following for the years ended September 30, 2003 and 2002:

	2003	2002
Interest and dividends	$ 194,739	$ 247,339
Unrealized earnings (loss) on investments	876,685	(1,462,216)
Net investment income (loss)	$ 1,071,424	$ (1,214,877)

All investments in securities are held in the Corporation's name.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables charged to expenses.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets.

Inventory

Materials and supplies are valued at cost, which approximates market, using the first-in-first-out (FIFO) method.

(1) Summary of Significant Accounting Policies, Continued, Continued

Investments in Companies

The Corporation accounts for its investments in companies in which it has between a 20-50% ownership by the equity method. Investments in which the Corporation's ownership is less than 20% are accounted for using the cost method.

Receivables

Accounts receivable are due from businesses and individuals located within the FSM. Receivables from international carriers are due from entities within the United States and Japan.

Compensated Absences

It is the Corporation's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay is accrued when incurred.

Plant Under Construction

Plant under construction represents the accumulated costs of unfinished capital projects. These costs will be capitalized as property, plant and equipment upon completion of each project.

Advertising Cost

Advertising costs are charged to operations when incurred.

(2) Investment - IntelSat

In September 1994, the Corporation became a member of the International Telecommunications Satellite organization (IntelSat). The Corporation paid its initial capital investment share of $910,114 representing a .05% valuation of the operating agreement at the time of acquisition. At September 30, 2003 and 2002, the investment balance of $910,114 is carried at cost. Interest earned on this investment was $0 during the years ended September 30, 2003 and 2002, respectively.

(3) Investment – Island Cable Television

On December 8, 1998, FSM Telecommunications Corporation acquired a 50% ownership in Island Cable Television - Pohnpei for $450,000. The Corporation recorded this investment under the equity method of accounting. Goodwill of $383,062 resulting from the purchase was being amortized over a period of fifteen (15) years. The remaining goodwill balance of $325,603 as of September 30, 2002 was written-off pursuant to FASB Statement No. 142, "Accounting for Goodwill and Intangible Assets."

The Corporation's pro rata share of (loss) income was ($97,929) and $16,110 for the years ended September 30, 2003 and 2002, respectively.

(4) Property, Plant and Equipment, Net

Property, plant and equipment, net as of September 30, 2003 and 2002, is as follows:

	Estimated Useful Lives	Beginning Balance October 1, 2002	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2003
General support	5-35 years	$ 12,050,250	$ 324,186	$ (185,150)	$ 12,189,286
Central office	20 years	9,555,907	74,619	-	9,630,526
Earth station	20 years	5,184,033	324,493	-	5,508,526
Terminal equipment	5-20 years	4,151,268	167,837	-	4,319,105
Cellular network	10-20 years	-	3,410,113	-	3,410,113
Internet equipment	8 years	498,365	138,165	-	636,530
Pole, cable and wiring	15-20 years	30,656,331	1,467,145	-	32,123,476
Total		62,096,154	5,906,558	(185,150)	67,817,562
Accumulated depreciation		(24,065,009)	(2,901,159)	176,508	(26,789,660)
		38,031,145	3,005,399	(8,642)	41,027,902
Plant under construction		4,771,722	2,630,040	(4,877,258)	2,524,504
Property, plant and equipment, net		$ 42,802,867	$ 5,635,439	$ (4,885,900)	$ 43,552,406

	Estimated Useful Lives	Beginning Balance October 1, 2001	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2002
General support	5-35 years	$ 11,838,342	$ 346,690	$ (134,782)	$ 12,050,250
Central office	20 years	8,670,223	885,684	-	9,555,907
Earth station	20 years	4,903,665	280,368	-	5,184,033
Terminal equipment	5-20 years	3,662,232	489,036	-	4,151,268
Internet equipment	8 years	357,426	157,426	(16,487)	498,365
Pole, cable and wiring	15-20 years	29,792,150	864,181	-	30,656,331
Total		59,224,038	3,023,385	(151,269)	62,096,154
Accumulated depreciation		(21,674,789)	(2,541,489)	151,269	(24,065,009)
		37,549,249	481,896	-	38,031,145
Plant under construction		2,155,202	3,450,047	(833,527)	4,771,722
Property, plant and equipment, net		$ 39,704,451	$ 3,931,943	$ (833,527)	$ 42,802,867

(5) Capitalized Interest

Interest is capitalized on all construction-in-progress pursuant to FASB 34, "Capitalization of Interest Costs" provided that the construction period exceeds one year. Interest capitalized on all construction-in-progress was $304,337 and $173,173 during the years ended September 30, 2003 and 2002, respectively.

(6) Notes Payable

	2003	2002
Loan payable to Rural Utilities Service (RUS), with a 35 year term, interest at 5%, collateralized by the Corporation's specific ground leases and essentially all other assets. Pursuant to a loan agreement dated August 1, 1990, the Corporation is required to make monthly payments of both principal and interest to RUS.	$ 26,654,002	$ 27,311,786
Less: current portion	675,620	642,731
Long-term portion of notes payable	$ 25,978,382	$ 26,669,055

Future minimum principal and interest payments on all notes payable for subsequent years ending September 30, are as follows:

Year ending September 30,	Principal	Interest	Total
2004	$ 675,620	$ 1,332,700	$ 2,008,320
2005	709,401	1,298,919	2,008,320
2006	744,871	1,263,449	2,008,320
2007	782,114	1,226,206	2,008,320
2008	821,220	1,187,100	2,008,320
2009 through 2013	4,764,647	5,276,953	10,041,600
2014 through 2018	6,081,032	3,960,568	10,041,600
2019 through 2023	7,761,109	2,280,491	10,041,600
2024 through 2026	4,313,988	373,723	4,687,711
	$ 26,654,002	$ 18,200,109	$ 44,854,111

(7) Commitments and Contingencies

The Corporation has fifteen operating leases as of September 30, 2003. Seven are residential real estate leases for contract employees, which have a term of one year or two years. Three represent leases for satellite stations of Yap, Pohnpei, and Kosrae with thirty-year leases. Three are for land site leases for three of the four state offices with 25-35 year terms beginning in 1988 for Pohnpei and Yap and 1990 for Kosrae. One is for a training center and one is for the previous central office on Pohnpei; both for 25 years terms beginning in 1983 for the training center and 1994 for the old central office. The Corporation has also entered into various circuit leases expiring through 2015 and 2016.

(7) Commitments and Contingencies, Continued

The approximate future minimum annual lease payments payable by the Corporation are as follows:

Year ending September 30;	Total
2004	$ 480,766
2005	442,116
2006	413,736
2007	358,176
2008	358,176
Thereafter	2,532,351
	$ 4,585,321

Self Insurance

The Corporation purchases insurance to cover risks associated with its buildings and equipment ($9,775,604 of coverage) and vehicles (up to $1 million of coverage per vehicle per incident). Additionally, the Corporation purchases fidelity insurance coverage for selected employees (total coverage of $2,204,000) and workmen's compensation insurance (coverage of up to $50,000 per employee). The Corporation also purchases general liability insurance in connection with operations (up to $1 million per occurrence). The Corporation does not purchase insurance for its Outside Plant. As most of these items are underground, the Corporation is of the opinion that losses from such, if any, will be minimal. Therefore, the Corporation 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.

Construction Commitments

During the year ended September 30, 2003, the Corporation entered into various contracts for construction and expansion of its facilities and services. Approximately $2,492,639 are outstanding under these contracts as of September 30, 2003.

(8) Compact Funding

Funds are made available under Section 215 (a) (2) of the Compact of Free Association for the use of the Corporation's operations and maintenance of its communications systems. These funds are granted for fifteen years commencing in 1986. The Corporation received Compact funds for the years ended September 30, 2003 and 2002, in the amounts of $0 and $582,361, respectively. The Compact of Free Association is currently under renegotiation. The effects of the renegotiation efforts on the Corporation cannot be determined at this time.

(9) Related Party Transactions

The Corporation's services are provided to its shareholders at the same rates as are charged to third parties. The Corporation is a component unit of the Federated States of Micronesia National Government. As of September 30, 2003, the Corporation has receivables from the National Government of approximately $218,712 ($226,719 at September 30, 2002).

(10) Retirement Plan

The Corporation's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees received from the FSM Social Security System. The Plan is a contributory plan in which the Corporation contributes 10 percent of the participant's annual salary, and the participant contributes 3 or more percent from his or her annual salary. Participation is optional. The Corporation's controller is the designated Plan administrator. Contributions to the Plan during the years ended September 30, 2003 and 2002 were $195,339 and $196,101, respectively. Management is of the opinion that the plan does not represent an asset or liability of the Corporation. For the years ended September 30, 2003 and 2002, plan assets were $2,378,760 and $1,455,578, respectively.

(11) External Carriers

External carriers located in other countries are subject to oversight policies from their respective regulatory agencies. Currently, U.S. regulatory agencies are contemplating a reduction of the tariff rate used by the Corporation for settlement with certain U.S. carriers. The ultimate outcome of this matter and the related impact on FSM Telecommunications Corporation cannot be predicted at this time.

(12) Adoption of New Accounting Standard

Effective October 1, 2001, the Corporation adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." GASB No. 33 establishes more uniform revenue recognition criteria and financial reporting standards regarding the timing and recognition of the results of nonexchange transactions involving cash and other financial and capital resources. The provisions of GASB No. 33 were applied to all periods presented and had no material impact on those statements.

Effective October 1, 2002, FSMTC adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*. GASB No. 34 establishes a new financial reporting model that includes management's discussion and analysis, which is required supplementary information to the basic financial statements, and the presentation of net assets and changes in net assets in comparative financial statements. The provisions of GASB No. 34 were applied to all periods presented; accordingly, the balance sheet and statement of revenues, expenses and net changes in net assets for 2002 has been restated. Implementation of GASB No. 34 had no impact on the statement of cash flows.

FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION

Schedule of Operating Expenses
Years Ended September 30, 2003 and 2002

	2003	2002
Salaries and wages	$ 3,033,955	$ 2,761,684
Depreciation	2,887,137	2,541,489
Circuit lease	609,210	577,101
Bad debt	597,976	-
Contractual services	582,367	490,697
Communications	538,581	298,230
Utilities	504,011	474,417
Advertising	329,473	348,174
Travel	267,577	259,407
Repairs and maintenance	224,958	334,921
Professional fees	98,425	60,636
Supplies	71,908	93,839
Insurance	59,153	60,540
Petroleum and lubricants	46,817	37,064
Import tax expense	38,396	35,894
Freight	37,109	90,426
ICTV taping services	34,650	37,800
Publications and printing	39,544	8,932
Rental expenses	31,964	35,850
ICTV affiliated	27,718	5,046
Representation	23,491	25,669
Land leases	11,945	27,864
Recruitment	4,650	-
Miscellaneous	56,079	46,929
Total	$ 10,157,094	$ 8,652,609

See Accompanying Independent Auditors' Report.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Chairman
Board of Directors
Federated States of Micronesia
Telecommunications Corporation:

We have audited the financial statements of the Federated States of Micronesia Telecommunications Corporation (FSMTC), as of and for the year ended September 30, 2003, and have issued our report thereon dated December 22, 2003. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether FSMTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered FSMTC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financing reporting that, in our judgment, could adversely affect FSMTC's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-1 through 03-7.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we consider none of the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management of FSMTC, federal awarding agencies, the Rural Utilities Service, supplemental lenders, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

December 22, 2003

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Chairman
Board of Directors
Federated States of Micronesia
Telecommunications Corporation:

Compliance

We have audited the compliance of the Federated States of Micronesia Telecommunications Corporation (FSMTC) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. FSMTC's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (page 22). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of FSMTC's management. Our responsibility is to express an opinion on FSMTC's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about FSMTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on FSMTC's compliance with those requirements.

In our opinion, FSMTC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

Internal Control Over Compliance

The management of FSMTC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered FSMTC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control on compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Federated States of Micronesia Telecommunications Corporation as of and for the year ended September 30, 2003, and have issued our report thereon dated December 22, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 21) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Federated States of Micronesia Telecommunications Corporation. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors and management of FSMTC, federal awarding agencies, the Rural Utilities Service, supplemental lenders, pass-through entities, 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.

Deloitte + Touche LLP

December 22, 2003

FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION

Schedule of Expenditures of Federal Awards
Schedule of Contracts
Rural Utilities Service Loan Funding (CFDA #10.851)
Year Ended September 30, 2003

	Loan Proceeds Approved as of September 30, 2003	Loan Proceeds Received During FY 2003	Total Disbursements On Contracts During FY2003
F/A 1	$ 411,584	$ -	$ -
Work Orders	422,905	-	-
CT. A-4	90,688	-	-
CT. A-5	1,191,004	-	-
CT. A-6	650,676	-	-
CT. A-7	3,108,615	-	-
CT. A-8	3,500,000	-	-
CT. A-9	1,108,149	-	-
CT. A-10	636,505	-	-
CT. A-11	1,193,317	-	-
CT. A-12	1,422,800	-	-
CT. A-13	19,440,795	-	-
CT. A-14X	1,988,002	-	-
CT. A-1E	275,625	-	-
CT. A-2E	4,008,263	-	-
CT. A-3A	304,109	-	-
Operating equipment	387,263	-	-
Pre-Loan	55,000	-	-
	$ 40,195,300	$ -	$ -

Excess of Disbursements over Proceeds	$ -
Unused Loan Funds as of September 30, 2003	-
Interest earned on RUS account net of miscellaneous bank charges	-
Unused Loan Funds as of September 30, 2003	$ -

The above loan program is received in a direct capacity from the grantor. In addition, the loan payable to Rural Utilities Service, totaling $26,654,002 at September 30, 2003, was tested for detailed compliance in accordance with OMB Circular A-133 requirements.

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion as of September 30, 2003.

2. Reportable conditions in internal control over financial reporting were identified.

3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.

4. Reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were not identified.

5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.

6. The audit disclosed no findings required to be reported by OMB Circular A-133.

7. The Organization's major programs were:

Name of Federal Program or Cluster	CFDA Number
Rural Utilities Service	10.851

8. No Type B programs as those terms are defined in OMB Circular A-133 are administered by the Organization.

9. The Organization did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

Reference Number	Findings	Questioned Costs	Refer Page #
03-1	Bank Reconciliation	$ -	23
03-2	Timely Collection of Receivable	$ -	24
03-3	Investment	$ -	26
03-4	Accrued Liabilities	$ -	27
03-5	Unrecorded Liabilities	$ -	28
03-6	FM Domain User Revenue	$ -	29
03-7	Sales for Cellular Phone	$ -	30

Part III - Federal Award Findings and Questioned Cost Section

No matters are reportable.

Bank Reconciliation

Finding No. 03-1

Criteria: A functioning system of internal control requires that bank reconciliations be maintained and reconciled with the general ledger on a recurring basis.

Condition: Several bank accounts are not properly reconciled. Also, it appears that 35 checks aggregating $11,567 in the main corporate general checking account have been outstanding more than ninety days without being adjusted.

Cause: The cause of this condition is that the age of these outstanding checks was not reviewed by management.

Effect: The effect of this condition is a potential misstatement of the financial statements.

Recommendation: We recommended that bank reconciliations be reconciled with the general ledger on a recurring basis and that outstanding items be properly reviewed and investigated.

Auditee Response dated February 4, 2003: To my knowledge, all bank accounts were reconciled during fiscal year 2003. However, we do recognize our oversight in not canceling those stale dated checks that kept outstanding for more than 12 months. The duration of a check to be considered stale dated is 12 months as agreed by Bank of Guam, Pohnpei Branch.

Timely Collection of Receivables

Finding No. 03-2

Criteria: Management should employ a consistent policy to ensure timely collection of receivables and this policy should incorporate the assessment of an adequate allowance account for doubtful debts.

Condition: It appears that various aged receivables approximating $529,000 are carried on the books without an attendant reserve. Timely collection of these receivables is not occurring. This matter was addressed during the audit process and a reserve for doubtful accounts was provided for.

Cause: The cause of this condition appears to be that management is of the opinion that collection can occur through an offset against payables recorded to the respective debtors.

Effect: The effect of this condition is a potential adverse impact on cash flows.

Recommendation: We recommend that FSM Telecommunications Corporation evaluate its receivables by executing a collection plan that would assist in formulating a necessary allowance for doubtful accounts.

Auditee Response dated February 4, 2003: We acknowledged that during fiscal year 2003, we do not periodically review those accounts placed under "Promissory Notes" for payment updates. We also recognize that our collection approach during fiscal year 2003 were poor. Our collection action is to improve collection in fiscal year 2004.

Investment

Finding No. 03-3

Criteria: The investment policy requires that certain asset allocations be met.

Condition: We found investment allocations did not comply with current policy.

Cause: The cause of this condition is that certain investments are more profitable than others. Therefore, management is reluctant to require a reallocation as investment returns are meeting expectations. Management addressed this matter with the Board and resolution has yet to occur.

Effect: The effect of this condition is potential noncompliance with the policy.

Prior Year Status: This matter was addressed to management in our 2002 report.

Recommendation: We recommend that FSM Telecommunications Corporation ensure that investment allocations are maintained in accordance with the policy or that the policy be amended.

Auditee Response dated February 4, 2003: Investment policy needs to be amended to address this continuous audit finding. Amendment policy will be submitted for Board of Directors approval in March 2004.

Accrued Liabilities

Finding No. 03-4

Criteria: A functioning system of internal control requires that subsidiary ledgers be maintained and reconciled with the general ledger on a recurring basis.

Condition: FSM Telecommunications Corporation was not able to provide the detail of accrued liabilities as of September 30, 2003. We were able to perform alternative procedures to be able to resolve the matter during the audit process.

Cause: The cause of this condition is that accrued liability subsidiary ledgers are not maintained.

Effect: The effect of this condition is a potential misstatement of the financial statements.

Recommendation: We recommend that FSM Telecommunications Corporation ensure that accrued liability subsidiary ledgers are maintained and reconciled with the general ledger on a recurring basis.

Auditee Response dated February 4, 2003: We agree that subsidiary ledger for accrued liabilities be established in fiscal year 2004.

Unrecorded Liabilities

Finding No. 03-5

Criteria: Accounting principles generally accepted in the United States require that the general ledger be maintained on an accrual basis.

Condition: It appears that five items aggregating $122,155 were not recorded as liabilities as of September 30, 2003.

Cause: The cause of this condition is that certain liabilities were not adequately recorded as of September 30, 2003.

Effect: The effect of this condition is a potential misstatement of the financial statements.

Recommendation: We recommend that FSM Telecommunications Corporation ensure that material accrued liabilities are recorded in the general ledger at each year end.

Auditee Response dated February 4, 2003: It was an oversight that the liabilities for contract associated with the Cellular projects were not accrued during fiscal year 2003. This will be corrected in fiscal year 2004.

FM Domain user revenue

Finding No. 03-6

Criteria: Accounting principles generally accepted in the United States require that general ledgers be maintained on an accrual basis.

Condition: We found that FM domain user revenue is recorded on a cash basis.

Cause: The cause of this condition is that revenue is recorded on a cash basis.

Effect: The effect of this condition is a potential misstatement of the financial statements.

Recommendation: We recommend that FSM Telecommunications Corporation ensure that FM domain user revenues are recorded in the general ledger on an accrual basis.

Auditee Response dated February 4, 2003: During the past years, domain revenues were booked as the checks received. The reason for this, is that revenue is only recognized when customers are signed up for the service. Therefore, accrual may cause an over statement of revenue.

Sales for cellular phone

Finding No. 03-7

Criteria: Accounting principles generally accepted in the United States require that gross sales and cost of sales be recorded in the books.

Condition: FSM Telecommunications Corporation records only net profit for cellular phone unit sales.

Cause: The cause of this condition is that gross revenue and gross costs are not recorded.

Effect: The effect of this condition is a potential misstatement of the financial statements.

Recommendation: We recommend that FSM Telecommunications Corporation ensure that gross revenue and costs are recorded in the general ledger to be in accordance with accounting principles generally accepted in the United States.

Auditee Response dated February 4, 2003: This finding is agreeable and it will be taken care of by the implementation of the new accounting system (ACCPACC).

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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 (FSMTC) for the year ended September 30, 2003, and have issued our report thereon dated December 22, 2003. 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 FSMTC for the year ended September 30, 2003, 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 assurance 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.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

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. The additional matters tested also include a schedule of investments in subsidiary and affiliated companies, which is attached to this report, upon which we express an opinion.

No reports (other than our Independent Auditors' Report on the financial statements, our Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards* and our Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program, the Schedule of Expenditures of Federal Awards (all dated December 22, 2003)), or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the 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 FSMTC's internal control over financial reporting and its operation 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 grants is the responsibility of FSMTC's management. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. 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 FSMTC for the year ended September 30, 2003 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, 2002, represented by the borrower as having been submitted to RUS, is in agreement with FSMTC's records in all material respects. The borrower has not submitted or prepared a Form 479 as of September 30, 2003. The borrower represents that it will now submit Form 479, including adjustments arising from the September 30, 2003 audit to RUS.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of FSMTC, nothing came to our attention that caused us to believe that FSMTC 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 Statement of Financial Accounting Standards (SFAS) No. 57, "Related Party Transactions," for the year ended September 30, 2003, in the financial statement referred to in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- the detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments required by 7 CFR Part 1773.33 (i) attached hereto is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of FSMTC's management. This information has been subject to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

* * * * * * * * * * * * * *

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.

Deloitte & Touche LLP

December 22, 2003

FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION

Schedule of Investments
Year Ended September 30, 2003

Investment in Intelsat	$ 910,114

See Accompanying Independent Auditors' Management Letter Report.