FEDERATED STATES OF MICRONESIA TELECOMMUNICATIONS CORPORATION

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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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

Table of Contents
Years Ended September 30, 2011 and 2010

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Federated States of Micronesia
Telecommunications Corporation:

We have audited the accompanying statements of net assets of the Federated States of Micronesia (FSM) Telecommunications Corporation (the Corporation), a component unit of the FSM National Government, as of September 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are 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 express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Corporation as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Corporation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Corporation's basic financial statements. The accompanying schedules of operating expenses and expenditures of federal awards (pages 25 and 26) are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the management of the Corporation. Such information has been subjected to the auditing procedures applied by us in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

December 22, 2011

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

Years Ended September 30, 2011 and 2010

Our discussion and analysis of the Federated States of Micronesia Telecommunications Corporation (FSMTC) financial performance provides an overview of the FSMTC financial activities for the fiscal year then ended September 30, 2011. This discussion has been prepared by the FSMTC Management to further provide an introduction and understanding of the basic financial statements for the year ended September 30, 2011. Please read it in conjunction, with financial statements and the notes thereto, which follow this discussion and analysis. Fiscal year 2010 and 2009 comparative information has been included, where appropriate.

The FSMTC is a public corporation of the Federated States of Micronesia National Government and is the primary provider of telecommunications services throughout the Federated States of Micronesia (FSM) and to points outside of FSM. The FSMTC also provides Cable TV in the Station of Kosrae, Digital Broadcast Television (DBTV) to both Yap and Chuuk Stations. Yap’s former wireless TV broadcasting, which was analog in nature, was replaced by DBTV in FY2011.

The FSMTC is under the governance of an appointed 5-member Board of Directors by President of the FSM and Governor of each State, which has oversight over both the FSMTC, Cable TV in Kosrae and DBTV in Yap & Chuuk. The President and Chief Executive Officer (CEO) is also an ex-officio non-voting member of the Board.

The FSMTC provides telecommunications services which include plain old telephone services (POTS) to 8,440 active subscribers. Other telecommunications services provided are National and International Overseas Calls, Internet Services, Mobile Cellular Services, Cable Television in the State of Kosrae with 384 active subscribers, DBTV in the State of Chuuk with 239 active subscribers and DBTV in the State of Yap with 339 active subscribers.

The FSMTC relies on calls made to and from outside of FSM and calls within the FSM, which account for 21.9% of FSMTC’s FY2011 operating revenues as compared with 23.4% of the FSMTC’s FY2010 operating revenues. During FY2011, FSMTC realized a decrease in call revenue of $170,241 (or 5.2%) as compared to FY2010. Management believes that the decrease was caused by the increase in internet usage and the increase in ADSL Internet subscribers on FY2011. Increase in Cellular services on the National level may have impacted the decline in domestic tolls.

Internet Services (Wifi, Dial Up, ADSL & FM Domain) account for 28.3% of FSMTC’s FY2011 operating revenues as compared with 26.3% of FSMTC’S FY 2010 operating revenues. During FY2011, FSMTC realize an increase in internet service revenues of $340,469 (or 9.3%) as compared to FY2010. As of September 30, 2011, the total internet subscribers were 2,528 down from 3,084 in FY2010. The drop in internet subscriber is mainly due to subscribers’ migration to ADSL services causing an overall increase in internet revenue.

Mobile services account for 24.9% of FSMTC’s FY2011 operating revenues as compared with 24.6% of FSMTC’S FY2010 operating revenues. During FY2011, FSMTC realized an increase in mobile service revenues of $83,234 (or 2.4%) as compared to FY2010. In FY2011, the FSMTC invested an additional $3,062,737 as an upgrade to its mobile network system. At September 30, 2011, total mobile subscribers were 72,736; up from 62,825 in FY2010. Total mobile subscribers were broken down as follows:

	FY2011	FY2010	Change
Pohnpei	33,530	28,961	4,569
Chuuk	20,961	18,104	2,857
Yap	12,649	10,926	1,723
Kosrae	5,596	4,834	762
TOTAL	72,736	62,825	9,911

However, out of 72,736 mobile service subscribers, only 23,449 are active or about 32.24% of total cellular subscriber records.

Statement of Net Assets

The statement of net assets presents the assets, liabilities, and net assets as of the end of the fiscal year. This statement is a point of time financial statement. The purpose of the statement of net assets is to present to the readers of the financial statements a fiscal snapshot of the FSMTC. The statement of net assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the data presented, readers of the statement of net assets are able to determine the assets available to continue the operations of the FSMTC. They also are able to determine how much the FSMTC owes vendors and lending institutions. Finally, the statement of net assets provides a picture of the net assets (assets minus liabilities), which is a useful indicator of whether the financial position of the FSMTC is improving or deteriorating.

The following summarizes the financial condition of the FSMTC for FY2011, FY2010 and FY2009:

	2011	2010	2009
Assets:			
Cash and cash equivalents	$ 496,202	$ 519,268	$ 482,043
TCD's and investments in securities	4,739,287	5,640,774	7,455,594
Receivables and prepayments	1,098,309	1,712,810	2,674,240
Inventory	744,379	821,936	576,317
Total current assets	7,078,177	8,694,788	11,188,194
Property, plant and equipment	54,906,388	56,360,754	53,391,534
Total Assets	$ 61,984,565	$ 65,055,542	$ 64,579,728
Liabilities:			
Current liabilities	$ 5,862,955	$ 5,073,361	$ 2,647,863
Non-current liabilities	30,497,987	31,912,503	32,095,934
Total Liabilities	36,360,942	36,985,864	34,743,797
Net Assets:			
Invested in capital assets, net of related debt	22,973,530	23,221,821	20,366,732
Unrestricted	2,650,093	4,847,857	9,469,199
Total net assets	25,623,623	28,069,678	29,835,931
Total liabilities and equity	$ 61,984,565	$ 65,055,542	$ 64,579,728

The total assets of FSMTC decreased when compared with prior year. The statement of assets reveals that the decrease in total assets is primarily the result of an increase in depreciation cost.

The total liabilities of FSMTC decreased by $624,922 compared with prior year. The primary cause of this change is RUS loan repayment.

The equity of FSMTC was affected by the change in both assets and liabilities and decreased by $2,446,055.

During FY2011, total cash received from telecommunications services exceeded the amounts paid to vendors and employees for goods and services. This resulted in net cash provided by operating activities of $4,183,387 as compared with $3,508,238 in FY2010.

The cash and cash equivalents at the end of FY2011 are $496,202 as compared to $519,268. The net cash used in financing activities during FY2011 exceeded the net cash provided by operations and investing activities, mainly due to debt paydowns. The FSMTC withdrew $1,000,000 from its marketable securities with Morgan Stanley Smith Barney to support its cash flow requirements for Cellular expansion and Digital Broadcast Television projects.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the statement of net assets are based on the activity presented in the statements of revenues, expenses and changes in net assets. The purpose of this statement is to present the revenues received by the FSMTC, both operating and non-operating, and expenses incurred by the FSMTC, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the FSMTC.

Generally speaking, operating revenues are generated from the provision of telecommunications goods and services to various customers. Operating expenses are those expenses incurred to acquire or produce the goods or services provided in return for the operating revenues, and to carry out the mission of the FSMTC. Non-operating revenues are revenues received for which goods or services are not provided. For example, investment income is non-operating because it is earned without providing telecommunications goods or services.

The following table summarizes the financial operations of the FSMTC for the years ended September 30, 2011, 2010 & 2009.

	2011	2010	2009
Operating Revenues	$ 13,568,945	$ 12,765,248	$ 12,948,819
Operating Expenses	(14,617,252)	(14,016,847)	(13,587,453)
Net operating loss	(1,048,307)	(1,251,599)	(638,634)
Interest income and others	120,340	787,533	484,432
Interest expense	(1,518,088)	(1,302,187)	(1,145,677)
Decrease in net assets	(2,446,055)	(1,766,253)	(1,299,879)
Net assets beginning of year	28,069,678	29,835,931	31,135,810
Net assets, end of year	$ 25,623,623	$ 28,069,678	$ 29,835,931

Total revenue in FY2011 increased by $ 803,697 (or 6.3%) compared to FY2010. The increase in FY2011 revenues was due to increase in Mobile and Internet services revenue. Operating expenses in FY2011 increased by $600,405 (or 4.28%) compared to FY2010 operating expenses. Most of the increase was attributed to the increase in depreciation and additional Bandwidths to support the ADSL roll over to other stations.

The FSMTC investments in property, plant and equipment and in an indefeasible right of use, net of accumulated depreciation, amounted to $54,906,388 in FY2011 and $56,360,754 in FY2010. For additional information concerning capital assets, please refer to note 4 and note 6 to the accompanying financial statements.

FSMTC's notes payable with the US Department of Agriculture (Rural Utilities Services) amounted to $31,932,855 as of September 30, 2011 of which $1,434,871 is classified as the current portion. Interest on funded debts paid during FY 2011 approximated $1,440,870, net of capitalized interest of $190,931 in accordance with FASB 34, associated with construction projects that exceed one year. For additional information concerning the FSMTC's long term debt, please refer to note 7 to the accompanying financial statements.

On November 19, 2008, United States Department of Agriculture Rural Development notified the FSMTC that based on the preliminary review of it "B" loan application, the FSMTC was qualified to borrow an additional amount of $13,120,000. At September 30, 2011, the FSMTC has drawn-down $12,136,034 from RUS for the purpose of funding the Fiber Optic Cable projects. The loan proceeds were to purchase 8 wavelengths of the fiber capacity of two fibers of the Kwajealein Cable System (KCS) as a capital lease for 25 years or Indefeasible right to use (IRU). The remaining balance of the loan is for electronics, engineering and construction of the undersea facilities between Pohnpei and the KCS network branch.

Economic Outlook

The Corporation has just completed the Mobile Services expansion in Pohnpei, Chuuk, Yap & Kosrae. Because of the significant contribution of Mobile Services to the Telecommunications revenue, FSMTC is committed to maintain a more reliable service to the people. With this expansion, communication connectivity using mobile services within the nations and out to the world will improve. The Corporation has modern, state of the art equipment and tariff rates that we feel are very reasonable compared with other telephone companies in the Pacific Region.

Core Network (Virtualization) Project which was approved in April 2010 is still on-going. The Corporation is also in the process of expanding its ADSL Backhaul in all the states of the Federated States of Micronesia. Because of the huge demand in internet service, management believes that this expansion will contribute to the increase in revenue. The integration of the Fiber Optic Cable in Pohnpei to the FSMTC network services is not possible without the procurement of appropriate equipment and overhaul of existing IP services (VOIP and Data). The Fiber Optic provisioning in Pohnpei will have little effect on the FSM States of Chuuk, Kosrae, and Yap without significant improvements to the domestic satellite connectivity.

Most of the telecommunications services provided in other more developed countries are available in the Federated States of Micronesia. These modern telecommunications services should go a long way in assisting the Federated States of Micronesia in its efforts to attract investors and to further develop our island nations.

The Board of Directors in its meeting of March 17, 2011, approved to purchase a REDCOM Switch for $270,795 to replace the over 20-year old DMS300 Switch. The purpose of which is to merge all carriers in one gateway and to produce a more reliable record for cost analysis studies. This will also contribute to power savings and floor space.

Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in FSMTC'S report on the audit of financial statements, which is dated December 6, 2010. That Discussion and Analysis explains the major factors impacting the 2010 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm

Financial Contact

This financial report is designed to provide all interested users with a general overview of the Federated States of Micronesia Telecommunications Corporation. If you have questions about this report or need additional financial information, please contact John Sohl, President/CEO or Rodelio A. Pulmano, Acting Senior Vice President/CFO at email addresses jsohl@mail.fm or rpulmano@mail.fm, respectively, or please write to us at P.O. Box 1210, Kolonia, Pohnpei FM 96941.

FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION
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Statements of Net Assets
September 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 496,202	$ 519,268
Time certificates of deposit	175,855	174,963
Investment in securities	4,563,433	5,465,811
Accounts receivable, net of an allowance for doubtful accounts of $837,062 and $1,151,453 in 2011 and 2010, respectively	398,723	428,744
Receivables from carriers	195,648	385,902
Advances to employees	2,610	27,656
Inventory	744,379	821,936
Accrued interest and other accrued earnings	131,578	117,105
Other receivables and prepaid expenses	369,749	753,403
Total current assets	7,078,177	8,694,788
Property, plant and equipment, net	51,469,465	52,777,579
Indefeasible right of use, net	3,436,923	3,583,175
	$ 61,984,565	$ 65,055,542
LIABILITIES AND NET ASSETS		
Current liabilities:		
Short-term borrowings	$ 2,331,054	$ 2,252,356
Current maturities of long-term debt	1,434,871	1,226,430
Accounts payable, trade	859,873	718,538
Accounts payable, construction	567,480	103,308
Deferred revenue-debit cards	80,114	72,228
Accrued leave payable	122,189	126,020
Other accrued liabilities	467,374	574,481
Total current liabilities	5,862,955	5,073,361
Long-term debt, net of current portion	30,497,987	31,912,503
Total liabilities	36,360,942	36,985,864
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	22,973,530	23,221,821
Unrestricted	2,650,093	4,847,857
Total net assets	25,623,623	28,069,678
	$ 61,984,565	$ 65,055,542

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Operating revenues:		
Internet	$ 4,002,506	$ 3,662,037
Mobile charges	3,516,858	3,433,624
Overseas tolls	3,096,537	3,266,778
External carriers	1,644,337	1,674,511
Net access	1,627,204	1,750,300
Recovery of (provision for uncollectible) bad debts	218,226	(533,592)
ICTV Kosrae cable charges	98,489	101,585
ICTV Yap cable charges	71,501	48,448
ICTV Chuuk cable charges	70,279	-
Miscellaneous	35,407	123,821
Discounts	(812,399)	(762,264)
Total operating revenues	13,568,945	12,765,248
Operating expenses:		
Corporate operations	2,413,088	2,391,772
Plant operations	1,986,793	1,988,259
Consumer operations	1,412,803	1,413,735
Internet expense	1,604,231	1,638,395
Cable and wire	1,918,376	1,452,885
Earth station	1,199,877	1,353,218
General support	1,192,646	1,215,514
Wireless telephone	1,311,476	1,181,269
Central office	611,521	634,226
Terminal equipment	566,310	466,302
ICTV expense	400,131	281,272
Total operating expenses	14,617,252	14,016,847
Loss from operations	(1,048,307)	(1,251,599)
Nonoperating revenues (expenses):		
Interest expense	(1,518,088)	(1,302,187)
Investment income	120,340	787,533
Total nonoperating revenues (expenses), net	(1,397,748)	(514,654)
Change in net assets	(2,446,055)	(1,766,253)
Total net assets at beginning of year	28,069,678	29,835,931
Total net assets at end of year	$ 25,623,623	$ 28,069,678

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from subscribers, long distance carriers and other customers	$ 13,797,106	$ 14,168,566
Cash paid to suppliers for goods and services	(5,967,434)	(7,079,624)
Cash paid to employees	(3,646,285)	(3,580,704)
Net cash provided by operating activities	4,183,387	3,508,238
Cash flows from noncapital financing activities:		
Net borrowings under line of credit facility	78,698	1,943,807
Interest paid on line of credit facility	(78,698)	(53,832)
Net cash provided by noncapital financing activities	-	1,889,975
Cash flows from capital and related financing activities:		
Proceeds from issuance of RUS long-term debt	-	1,063,640
Additions to property, plant and equipment	(2,377,412)	(6,152,303)
Payments made under IRU capital lease agreement	-	(109,689)
Repayments of RUS long-term debt	(1,206,075)	(949,510)
Interest paid on RUS long-term debt	(1,630,321)	(1,670,709)
Net cash used for capital and related financing activities	(5,213,808)	(7,818,571)
Cash flows from investing activities:		
Net purchases, sales and maturities of investments	(97,620)	(215,700)
Withdrawals from investments	1,000,000	2,500,000
Interest and dividends received on investment securities and others	104,975	173,283
Net cash provided by investing activities	1,007,355	2,457,583
Net change in cash and cash equivalents	(23,066)	37,225
Cash and cash equivalents at beginning of year	519,268	482,043
Cash and cash equivalents at end of year	$ 496,202	$ 519,268
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	$ (1,048,307)	$ (1,251,599)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	4,486,879	3,860,296
Bad debts (recoveries)	(218,266)	533,592
(Increase) decrease in assets:		
Accounts receivable	248,247	7,099
Receivable from carriers	190,254	133,508
Advances to employees	25,046	(17,818)
Inventory	77,557	(245,619)
Accrued interest and other accrued earnings	-	46,282
Other receivables and prepaid expenses	383,654	258,767
Increase (decrease) in liabilities:		
Accounts payable, trade	141,335	473,464
Deferred revenue-debit cards	7,886	(53,145)
Accrued leave payable	(3,831)	14,808
Other payables and accrued expenses	(107,107)	(251,397)
Net cash provided by operating activities	$ 4,183,347	$ 3,508,238

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Nature of Operations

The Federated States of Micronesia (FSM) Telecommunications Corporation (the Corporation), a component unit of the FSM National Government, is a local exchange carrier (LEC) and an international exchange carrier providing local telephone service, cellular service, internet access, long distance telecommunication services, and digital wireless TV. The Corporation serves commercial and residential customers in the four states that comprise the FSM - Chuuk, Kosrae, Pohnpei and Yap.

Organization

The Corporation was 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 and began its operations in October 1983.

Basis of Accounting

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Corporation implemented 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 elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The Corporation maintains a chart of accounts in accordance with the Uniform System of Accounts for telephone companies of the United States Federal Communications Commission's Rules, and in conformity with accounting principles generally accepted in the United States of America (GAAP). Additionally, the Corporation utilizes the accrual basis of accounting.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No.'s 37 and 38, 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.

- Restricted:

  - Nonexpendable - Net assets subject to externally imposed stipulations that require the Corporation to maintain them permanently.

(1) Summary of Significant Accounting Policies

Basis of Accounting, Continued

- ➢ 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.

The Corporation has no restricted net assets at September 30, 2011 and 2010.

- 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.

Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the Corporation. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified in the statements of net assets. Certificate of deposit investment accounts established and set aside for future capital expenditure projects are classified within investment in securities.

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Accounts Receivable

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

Accounts receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection effects are written off through a charge to the valuation allowance and a credit to accounts receivable.

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The Corporation capitalizes buildings, land improvements and equipment that have a cost of $200 or more and an estimated useful life of at least five years. The cost of maintenance and repairs is charged to operating expenses. Depreciation is calculated on the straight-line method over the estimated useful lives of the respective assets.

Plant Under Construction

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

Indefeasible Right of Use

The Corporation has capitalized the cost of acquisition of the exclusive right to use a specified amount of fiber capacity for a period of time, which is amortized over the length of the term of the capacity agreement on the straight line method.

Valuation of Long-Lived Assets

The Corporation, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At September 30, 2011 and 2010, no assets had been written down.

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 earned.

Income Taxes

Corporate profits are not subject to income tax in the FSM. The FSM National Government imposes a gross revenue tax of 3% on revenues. The Corporation is specifically exempt from any taxes except import taxes in accordance with its enabling legislation for the years ending September 30, 2011 and 2010.

As of October 1, 2011, the Corporate’s enabling legislation has been modified and it will no longer be exempt from gross revenue taxes.

(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition and Classification

Billings for local service revenue and basic internet service are rendered monthly in advance. Advance billings are recorded as a liability and are subsequently transferred to income in the period earned. Prepaid card revenues are recorded when the cards are sold.

Long distance network services revenues and usage-sensitive internet service revenues are based on a per-minute charge paid by the end user or other telecommunications service providers. These revenues are billed in arrears, but are recognized in the month that service is provided.

The Corporation records all revenue generated from providing telecommunications services as operating revenue, including local service, long distance, internet, and cellular services.

Non-operating revenues and expenses consist of investment earnings, interest paid on long-term debt, and grant funds received.

New Accounting Standards

During fiscal year 2011, FSMTC implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of FSMTC.

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of FSMTC.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of FSMTC.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of FSMTC.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of FSMTC.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53),* which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of FSMTC.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

(1) Summary of Significant Accounting Policies, Continued

Reclassifications

Certain balances in the 2010 presentation have been reclassified to conform to the 2011 presentation. The most significant reclassification was reflecting discounts as a revenue reduction rather than as advertising expense.

(2) Investment - Island Cable Television

On December 8, 1998, the 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.

(3) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies of the Corporation are governed by the Board of Directors. As such, the Board of Directors is authorized to delegate certain responsibilities to third parties. Investment managers have discretion to purchase, sell, or hold the specific securities to meet the objectives set forth in the investment policy.

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 20% of the total portfolio may be invested in non-U.S. equities.

A. Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by the Corporation or its agent in the Corporation's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Corporation's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Corporation's name and non-collateralized deposits.

(3) Deposits and Investments, Continued

A. Deposits, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in the Corporation's name. The Corporation does not have a deposit policy for custodial credit risk.

As of September 30, 2011 and 2010, the carrying amount of the Corporation's total cash and cash equivalents and time certificates of deposit was $672,057 and $694,231, respectively, and the corresponding bank balances were $637,623 and $725,989, respectively, all of which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, bank deposits in the amount of $577,059 and $406,570, respectively, were FDIC insured. The Corporation does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Corporation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by the Corporation or its agent in the Corporation's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Corporation's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Corporation's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the elements of custodial credit risk in GASB Statement No. 3.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the Corporation's investment policy.

(3) Deposits and Investments, Continued

B. Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Corporation will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of September 30, 2011 and 2010, the Corporation's investments are held in the name of the Corporation and are administered by investment managers subject to Securities Investor Protection Corporation insurance in accordance with the Corporation's investment policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Corporation's investment policy states that all fixed income securities shall have a Moody's, Standard & Poor's and/or Fitch's credit rating of no less than "BBB."

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Corporation. As of September 30, 2011 and 2010, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2011 and 2010, investments at fair value are as follows:

	2011	2010
Fixed income:		
U.S. Treasury obligations	$ 624,800	$ 624,892
U.S. Government agencies	297,077	304,767
Corporate notes	922,941	1,112,033
International bonds	44,447	43,698
	1,889,265	2,085,390
Other investments:		
Domestic and international equities	2,460,770	3,225,212
Money market funds	213,398	155,209
	$ 4,563,433	$ 5,465,811

As of September 30, 2011, the Corporation's investments in debt securities were as follows:

	Moody's Credit Rating	Investment Maturities (In Years) Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	Aaa/P-1	$ 182,925	$ 256,900	$ 184,975	$ -	$ 624,800
U.S. Government agencies	Aaa/P-1	77,905	219,172	-	-	297,077
International bonds	AA1/AA	-	44,447	-	-	44,447
Corporate notes	A1/P-1	-	157,664	130,495	-	288,159
Corporate notes	A2/P-1	111,025	108,037	-	-	219,062
Corporate notes	Aa2/P-1	-	169,803	-	-	169,803
Corporate notes	Aa3/P-1	-	140,703	105,214	-	245,917
		$ 371,855	$ 1,096,726	$ 420,684	$ -	$ 1,889,265

(3) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2010, the Corporation's investments in debt securities were as follows:

	Moody's Credit Rating	Investment Maturities (In Years): Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	Aaa/P-1	$ -	$ 520,228	$ 104,664	$ -	$ 624,892
U.S. Government agencies	Aaa/P-1	-	304,767	-	-	304,767
International bonds	AA1/AA	-	43,698	-	-	43,698
Corporate notes	A1/P-1	50,913	196,840	146,531	-	394,284
Corporate notes	A2/P-1	83,246	256,330	-	-	339,576
Corporate notes	Aa2/P-1	-	174,484	-	-	174,484
Corporate notes	Aa3/P-1	-	87,188	116,501	-	203,689
		$ 134,159	$ 1,583,535	$ 367,696	$ -	$ 2,085,390

(4) Property, Plant and Equipment

Capital asset activities of the Corporation for the years ended September 30, 2011 and 2010 are as follows:

	Estimated Useful Lives	Balance October 1, 2010	Additions	Retirements	Balance September 30, 2011
General support	5-35 years	$ 15,173,297	$ 1,360,919	$ (74,696)	$ 16,459,520
Central office	20 years	10,990,625	689,921	-	11,680,546
Earth station	20 years	5,600,527	-	-	5,600,527
Terminal equipment	5-20 years	3,172,879	317,281	-	3,490,160
Cellular network	10-20 years	14,655,122	3,095,500	-	17,750,622
Internet equipment	8 years	1,743,431	354,990	-	2,098,421
Pole, cable and wiring	15-20 years	44,197,024	216,187	-	44,413,211
Total		95,532,905	6,034,798	(74,696)	101,493,007
Accumulated depreciation		(46,699,892)	(4,338,484)	74,696	(50,963,680)
		48,833,013	1,698,314	-	50,529,327
Plant under construction		3,944,566	(3,004,428)	-	940,138
Property, plant and equipment, net		$ 52,777,579	$ (1,308,114)	$ -	$ 51,469,465

(4) Property, Plant and Equipment, Continued

	Estimated Useful Lives	Balance October 1, 2009	Additions	Retirements	Balance September 30, 2010
General support	5-35 years	$ 14,785,666	$ 416,759	$ (29,129)	$ 15,173,296
Central office	20 years	10,960,958	29,666	-	10,990,624
Earth station	20 years	5,524,894	75,633	-	5,600,527
Terminal equipment	5-20 years	3,041,470	131,410	-	3,172,880
Cellular network	10-20 years	13,897,623	757,499	-	14,655,122
Internet equipment	8 years	1,394,375	388,326	(39,271)	1,743,430
Pole, cable and wiring	15-20 years	33,813,782	10,383,242	-	44,197,024
Total		83,418,768	12,182,535	(68,400)	95,532,903
Accumulated depreciation		(42,907,996)	(3,860,296)	68,400	(46,699,892)
		40,510,772	8,322,239	-	48,833,011
Plant under construction		9,407,276	5,157,323	(10,620,031)	3,944,568
Property, plant and equipment, net		$ 49,918,048	$ 13,479,562	$ (10,620,031)	$ 52,777,579

(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 qualifying construction-in-progress was $190,931 and $567,524 during the years ended September 30, 2011 and 2010, respectively.

(6) Indefeasible Right of Use (IRU)

On January 12, 2009, the Corporation entered into an IRU Capital Lease agreement with a third party for the exclusive use of 8 wave lengths of fiber capacity of the two fibers of the Kwajalein Cable System (KCS) which runs between Guam and Kwajalein and which is known as the "HANTRU1 System". Under the terms of the agreement, the Corporation is required to make certain payments, totaling $3,656,301, of which $3,473,486 was paid as of September 30, 2009, and the remaining $182,815 was paid as of September 30, 2010. The initial term of the agreement is for a period of 10 years commencing on the date the Corporation is initially granted access, and which term is automatically renewable for a further 10 year period and an additional 5 year period thereafter. Prior to the tenth and twentieth anniversary dates, the Corporation has the option to terminate this agreement; however, such is subject to prior approval of the Rural Utilities Services (RUS) of the U.S. Department of Agriculture. The Corporation's policy is to amortize the right of use over the 25 year period. As of September 30, 2011 and 2010, accumulated amortization expense of $219,378 and $73,126, respectively, has been recorded.

(7) Long-term Debt

	2011	2010
Loans payable to RUS, with a 35 year term, interest at 5%, collateralized by the Corporation's specific ground leases and essentially all other assets. Pursuant to loan agreements dated August 1, 1990 and March 12, 2009, the Corporation is required to make monthly payments of both principal and interest to RUS. The loans were originally in the amounts of $32,000,000 and $12,136,000 and the proceeds were used for capital related purposes.	$ 31,932,858	$ 33,138,933

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

Year ending September 30,	Principal	Interest	Total
2012	$ 1,434,871	$ 1,565,206	$ 3,000,077
2013	1,510,567	1,489,510	3,000,077
2014	1,586,760	1,413,317	3,000,077
2015	1,667,941	1,332,136	3,000,077
2016	1,752,305	1,247,772	3,000,077
2017 - 2021	10,207,874	4,792,509	15,000,383
2022 - 2027	13,772,540	1,906,442	15,678,982
	$ 31,932,858	$ 13,746,892	$ 45,679,750

A summary of changes in long-term liabilities for the years ended September 30, 2011 and 2010 are as follows:

	Balance October 1, 2010	Increases	Decreases	Balance September 30, 2011	Due Within one Year
Note payable: Rural Utilities Service	$ 33,138,933	$ -	$(1,206,075)	$31,932,858	$1,434,871

	Balance October 1, 2009	Increases	Decreases	Balance September 30, 2010	Due Within one Year
Note payable: Rural Utilities Service	$ 33,024,803	$1,063,640	$ (949,510)	$33,138,933	$1,226,430

(8) Short-term Borrowings

A schedule of the Corporation's short-term borrowings as of September 30, 2011 and 2010 is as follows:

	2011	2010
Line of credit facility of approximately $4,464,580, interest at 5.25% per annum, collateralized by certain eligible investment securities.	$ 2,331,054	$ 2,252,356

During the year ended September 30, 2010, the Corporation drew down against this line of credit facility in the amount of $2,200,000 and made corresponding repayments of $309,626, respectively. During the year ended September 30, 2011, there were no drawdowns or payments. Proceeds from this line of credit facility were primarily for the purpose of funding the operations of the Corporation. The 2011 balance includes $78,698 of interest that has been assessed and added to the facility balance.

(9) Commitments and Contingencies

Leases

The Corporation has fifteen operating leases as of September 30, 2010. Seven are residential real estate leases for contract employees, which have a term of one or two years. Three represent thirty-year leases for satellite stations of Yap, Pohnpei, and Kosrae. Three are for land sites for state offices with 25-35 year terms beginning in 1988 for Pohnpei and Yap and 1990 for Kosrae. Two are for land site leases for the previous central office and for the southeast remote switch on Pohnpei; both for 15 year terms beginning in 1994. The Corporation has also entered into various circuit leases expiring through 2016.

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

Year ending September 30;	Total
2012	$1,989,297
2013	1,278,829
2014	1,173,099
2015	988,927
2016	29,084
2017 - 2021	30,225
2022 - 2026	12,348
	$ 5,501,809

(9) Commitments and Contingencies, Continued

Operation, Management and Repair (OM&R) Agreement

On March 2, 2009, the Corporation, along with the Marshall Islands National Telecommunications Authority (MINTA), entered into an OM&R agreement with a third party for the purpose of operating, maintaining, and repairing the "Micronesian Addition", which is a subset of the HANTRU1 System. The term of the agreement coincides with the term of the IRU Capital Lease agreement wherein the Corporation and MINTA are required to each make monthly payments of $6,400 less certain service credits, and which are subject to inflationary adjustments and an annual incremental increase of 3%.

Self Insurance

The Corporation purchases insurance to cover risks associated with its buildings and equipment ($19,440,465 of coverage) and vehicles (up to $1,000,000 of coverage per vehicle per incident). Additionally, the Corporation purchases fidelity insurance coverage for selected employees (total coverage of $2,454,000) and workmen's compensation insurance (coverage of up to $100,000 per employee). The Corporation also purchases general liability insurance in connection with operations (up to $1,000,000 per occurrence). There have been no significant reductions in coverage, and there have been no settlements in excess of insurance coverage for the past three years. 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, 2011, the Corporation entered into various contracts for construction and expansion of its facilities and services. Approximately $1,699,318 is outstanding under these contracts as of September 30, 2011.

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 the Corporation cannot be predicted at this time.

Litigation

In the ordinary course of business, claims have been filed against the Corporation. Management does not believe that the plaintiffs will prevail and the ultimate outcome is currently not determinable. Therefore, no provision has been recorded in the accompanying financial statements for losses, if any, that may result.

(10) Related Party Transactions

The Corporation's services are provided to its affiliates 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, 2011 and 2010, receivables from the FSM National Government amounted to $148,338 and $208,244, respectively.

(11) 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, 2011 and 2010 were $386,166 and $352,485, respectively. Management is of the opinion that the plan does not represent an asset or liability of the Corporation. At September 30, 2011 and 2010, plan assets were $3,928,412 and $3,964,636, respectively.

(12) Subsequent Events

No events have occurred subsequent to September 30, 2011 but before December 22, 2011, the date the financial statements were available to be issued, that required consideration as adjustments to, or disclosures in, the financial statements, other than the following:

On June 29, 2011, Congressional Bill No. 17-01 was passed by FSM National Government, which subjects the Corporation to Gross Revenue Tax effective October 1, 2011.

On October 7, 2011, the Corporation invested $10,000 in Caroline Cable Corporation.

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

Schedule of Operating Expenses
Years Ended September 30, 2011 and 2010

	2011	2010
Depreciation and amortization	$ 4,486,879	$ 3,929,890
Salaries and wages	3,642,454	3,577,694
Circuit lease	1,961,596	2,264,324
Repairs and maintenance	1,246,598	791,008
Utilities	951,077	926,695
Cost of sales	479,664	497,935
Travel	364,249	346,150
Petroleum and lubricants	245,563	68,083
Rental expenses	187,747	82,824
Communications	182,075	210,626
Supplies	145,102	125,404
Contractual services	141,263	654,895
ICTV affiliated	95,961	98,459
Insurance	77,212	82,956
Professional fees	57,370	22,242
Freight	53,101	52,147
Import tax expense	50,552	57,691
Representation	44,664	59,529
Advertising	38,810	48,908
Publications and printing	23,992	25,783
Training	13,455	52,154
Miscellaneous	127,868	41,450
	$ 14,617,252	$ 14,016,847

See Accompanying Independent Auditors' Report.

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

Schedule of Expenditures of Federal Awards
Rural Utilities Service Loan Funding
Year Ended September 30, 2011

Approved Purposes	Loan Proceeds Approved as of September 30, 2011	Loan Proceeds Received During FY 2011	Total Disbursements on Contracts During FY 2011
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. B-15	8,206,857	-	-
CT. B-16E	274,500	-	-
CT. A-1E	275,625		
CT. A-2E	4,008,263	-	-
CT. A-3A	304,109	-	-
Operating Equipment	387,263	-	-
Pre-Loan	55,000	-	-
IRU Capital Lease	3,656,301	-	-
Interest Income		-	-
	$ 52,332,958	$ -	$ -

RUS Construction Fund account balance as of October 1, 2010	$ 5,084
Excess of Disbursements over Loan Proceeds	(5,077)
Interest earned on RUS account net of miscellaneous bank charges as of September 30, 2011	(7)
RUS Construction Fund account balance as of September 30, 2011	$ -

See Accompanying Independent Auditors' Report.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Federated States of Micronesia
Telecommunications Corporation:

We have audited the financial statements of the Federated States of Micronesia Telecommunications Corporation (the Corporation), as of and for the year ended September 30, 2011, and have issued our report thereon dated December 22, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, 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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 and other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Corporation in a separate letter dated December 22, 2011.

This report is intended solely for the information and use of the Board of Directors and management of the Corporation, 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, 2011