

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

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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

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Years Ended September 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Federated States of Micronesia
Telecommunication Regulation Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federated States of Micronesia (FSM) Telecommunication Regulation Authority (the Authority), a component unit of the FSM National Government, which comprise the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

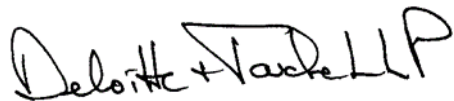
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 4 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Authority's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2021, on our consideration of the Authority'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 internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



November 2, 2021

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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

The following Discussion and Analysis of the Telecommunication Regulation Authority (TRA) is to provide an introduction and understanding of the basic financial statements of TRA for the fiscal year ended September 30, 2020 and 2019. This discussion has been prepared by management and should be read in conjunction with the financial statements.

This annual report consists of two parts:

1. Management Discussion and Analysis
2. Basic Financial Statements

The basic financial statements include the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows. For TRA activities, these statements tell how these services were financed during fiscal year 2020 and 2019.

TRA was created under Public Law 18-52 in 2014 and its primary responsibilities are:

1. to establish the Rules & Regulations and promote the fair competition among the operators.
2. to evaluate and issue the telecommunication operator's licenses.
3. to coordinate and regulate the Interconnections among the operators.
4. responsible for Spectrum Management and issue spectrum licenses.
5. to monitor the Quality Service by the operators.

During fiscal year 2018, the financial activities of TRA were part of the Department of TC&I and accounting of services was done at the Department of Finance. It should be noted that the value of the contributed fixed assets in 2018 was treated as a 2019 equity contribution of the National Government. It was booked on October 1, 2018. On October 1, 2018, TRA implemented its accounting system, utilizing QuickBooks 2019.

During fiscal year 2020, the total amount received from licensing of telecommunication operators is \$271,634 all of which was received from related parties. TRA also received contributions for its operations in 2020 and 2019 of \$647,566 and \$229,361, respectively from World Bank and \$0 and \$150,000, respectively from the FSM National Government.

Expenditures associated with the funds received from World Bank were to pay for contractual services provided to TRA in 2020. The funds contributed by FSM National Government were for TRA 2019 operations.

The following table summarizes the financial condition of TRA for the years ended September 30, 2020 and 2019:

	2020	2019
Assets:		
Cash	\$ 144,969	\$ 19,880
Accounts receivable	-	13,166
Capital assets, net of accumulated depreciation	<u>24,383</u>	<u>20,180</u>
	<u>\$ 169,352</u>	<u>\$ 53,226</u>

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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

	2020	2019
Liabilities:	\$ 5,051	\$ 6,127
Net position	<u>164,301</u>	<u>47,099</u>
Total Liabilities and Equity	\$ <u>169,352</u>	\$ <u>53,226</u>
Revenues	\$ 271,634	\$ -
Contributed revenues	647,566	379,361
Operating expenses	<u>801,998</u>	<u>347,222</u>
Increase in net position	\$ <u>117,202</u>	\$ <u>32,139</u>

At September 30, 2020 and 2019, TRA has a total of \$144,969 and \$19,880, respectively, of cash in bank and on hand.

TRA did not engage in significant capital asset transactions and has no long-term debt. See Note 3 for additional information related to capital assets.

In February 2019, TRA contracted an external consultant to assist in the governance of the TRA, followed by another external consultant to assist in the drafting of the Rules and Regulations for the FSM Telecommunication Sector. Both consultants are being paid the grant money provided by the World Bank.

Consultation on the draft Rules and Regulations was conducted twice to solicit comments from existing operators, potential future operators and the public. In accordance with the Administrative Procedure Act, the Rules and Regulations were promulgated effective October 1, 2019.

TRA was expected to and did issue licenses and collect license fees from the telecom operators at the beginning of Fiscal Year 2020. In Fiscal Year 2020, TRA did not expect to receive contributions from the National Government. The World Bank will continue to fund TRA under Connectivity and Digital FSM Projects.

Financial Contact

This financial report is designed to provide all interested users with a general overview of the Federated States of Micronesia Telecommunications Regulation Authority. If you have questions about this report or need additional financial information, please contact Takuro Akinaga, Chief Executive at email address takuro.akinaga@tra.fm or please write to us at P.O. Box 1919, Kolonia, Pohnpei FM 96941.

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Statements of Net Position
September 30, 2020 and 2019

<u>ASSETS</u>	2020	2019
Current assets:		
Cash	\$ 144,969	\$ 19,880
Accounts receivable	-	13,166
Total current assets	144,969	33,046
Capital assets, net of accumulated depreciation	24,383	20,180
	\$ 169,352	\$ 53,226
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable, trade	\$ -	\$ 3,231
Other accrued liabilities	5,051	2,896
Total liabilities	5,051	6,127
Commitments and contingencies		
Net position:		
Net investment in capital assets	24,383	20,180
Unrestricted	139,918	26,919
Total net position	164,301	47,099
	\$ 169,352	\$ 53,226

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Total operating revenues	\$ <u>271,634</u>	\$ <u>-</u>
Operating expenses:		
Consultancy	627,887	214,480
Payroll related	108,326	70,444
Travel	19,867	21,029
Rent and leases	15,600	15,253
Depreciation	10,591	6,487
Telecommunication	3,694	3,544
Utilities	2,804	2,440
Printing	389	1,673
Miscellaneous	<u>12,840</u>	<u>11,872</u>
Total operating expenses	<u>801,998</u>	<u>347,222</u>
Loss from operations	<u>(530,364)</u>	<u>(347,222)</u>
Nonoperating revenues:		
Operating subsidy from the FSM National Government	-	150,000
World Bank contribution	<u>647,566</u>	<u>229,361</u>
Total nonoperating revenues, net	<u>647,566</u>	<u>379,361</u>
Income before capital contributions	117,202	32,139
Capital contribution from components of the FSM National Government	<u>-</u>	<u>14,960</u>
Change in net position	117,202	47,099
Net position at beginning of year	<u>47,099</u>	<u>-</u>
Net position at end of year	<u>\$ 164,301</u>	<u>\$ 47,099</u>

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash paid to suppliers for goods and services	\$ (399,357)	\$ (277,330)
Cash paid to employees	<u>(108,326)</u>	<u>(70,444)</u>
Net cash used for operating activities	<u>(507,683)</u>	<u>(347,774)</u>
Cash flows from noncapital financing activities:		
Operating subsidy received from FSM National Government	-	150,000
Operating subsidy received from World Bank	<u>647,566</u>	<u>229,361</u>
Net cash provided by noncapital financing activities	<u>647,566</u>	<u>379,361</u>
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment	<u>(14,794)</u>	<u>(11,707)</u>
Net cash used for capital and related financing activities	<u>(14,794)</u>	<u>(11,707)</u>
Net change in cash and cash equivalents		
Cash and cash equivalents at beginning of year	<u>19,880</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 144,969</u>	<u>\$ 19,880</u>
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (530,364)	\$ (347,222)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation and amortization	10,591	6,487
Decrease (Increase) in assets:		
Accounts receivable	13,166	(13,166)
(Decrease) Increase in liabilities:		
Accounts payable	(3,231)	3,231
Other accrued liabilities	<u>2,155</u>	<u>2,896</u>
Net cash used for operating activities	<u>\$ (507,683)</u>	<u>\$ (347,774)</u>

Supplemental schedule of non-cash activities:

During the years ended September 30, 2020 and 2019, various FSM National Government components contributed capital assets of \$0 and \$14,960 to the Authority.

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies

Nature of Operations

The Federated States of Micronesia (FSM) Telecommunication Regulation Authority (the Authority), a component unit of the FSM National Government, is a regulatory body governing telecommunication services in the Federated State of the Micronesia.

Organization

The Authority was established as a public corporation under Public Law 18-52, the purpose of which is to be regulator charged with setting standards and guidelines in enhancing access to and affordability of telecommunications services in the Federated States of Micronesia. The Authority is governed by a Chief Executive and two members, all appointed by the President of the FSM with the advice and consent of the FSM Congress.

Basis of Accounting

The Authority maintains a chart of accounts in accordance with accounting principles generally accepted in the United States of America (GAAP). Additionally, the Authority 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. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, establish 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 position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted - net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. The Authority has no restricted net position at September 30, 2020 and 2019.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position 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 Authority. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified in the statements of net position. Certificate of deposit investment accounts established and set aside for future capital expenditure projects are classified within investment in securities.

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Notes to Financial Statements
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(1) Summary of Significant Accounting Policies, Continued

Accounts Receivable

Account receivable are primarily reimbursements due from funding agencies.

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. No allowance for doubtful accounts was recorded as of September 30, 2020 and 2019.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The Authority capitalizes buildings, land improvements and equipment that have a cost of \$150 or more and an estimated useful life of at least two 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.

Valuation of Long-Lived Assets

The Authority, 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, 2020 and 2019, no assets had been written down.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Authority has no items that qualify for reporting in this category.

Compensated Absences

It is the Authority'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.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Authority has no items that qualify for reporting in this category.

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Notes to Financial Statements
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(1) Summary of Significant Accounting Policies, Continued

Income Taxes

Corporate profits are not subject to income tax in the FSM. The Authority is specifically exempt from taxes in accordance with its enabling legislation for the years ended September 30, 2020 and 2019.

New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

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Notes to Financial Statements
September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year ending September 30, 2022.

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Notes to Financial Statements
September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

Custodial credit risk is the risk that in the event of a bank failure, the Authority'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 Authority's name. The Authority does not have a deposit policy for custodial credit risk.

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Notes to Financial Statements
September 30, 2020 and 2019

(2) Deposits, Continued

As of September 30, 2020 and 2019, the carrying amount of the Authority's total cash and cash equivalents and time certificates of deposit was \$144,969 and \$19,880, respectively, and the corresponding bank balances was \$145,072 and \$21,332, respectively, all of which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, the bank deposits were FDIC insured. The Authority 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 Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(3) Capital Assets

Capital asset activities of the Authority for the years ended September 30, 2020 and 2019 are as follows:

	Estimated <u>Useful Lives</u>	Balance <u>October 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>September 30, 2020</u>
Furniture and fixtures	5 years	\$ 8,241	\$ -	\$ -	\$ 8,241
Equipment	3-5 years	2,232	11,962	-	14,194
Vehicles	8 years	5,000	-	-	5,000
Computer hardware and software	2-7 years	<u>11,194</u>	<u>2,833</u>	-	<u>14,027</u>
Total		26,667	14,795	-	41,462
Accumulated depreciation		<u>(6,487)</u>	<u>(10,592)</u>	-	<u>(17,079)</u>
		<u>\$ 20,180</u>	<u>\$ 4,203</u>	<u>\$ -</u>	<u>\$ 24,383</u>

	Estimated <u>Useful Lives</u>	Balance <u>October 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>September 30, 2019</u>
Furniture and fixtures	5 years	\$ -	\$ 8,241	\$ -	\$ 8,241
Equipment	3-5 years	-	2,232	-	2,232
Vehicles	8 years	-	5,000	-	5,000
Computer hardware and software	2-7 years	-	<u>11,194</u>	-	<u>11,194</u>
Total		-	26,667	-	26,667
Accumulated depreciation		-	<u>(6,487)</u>	-	<u>(6,487)</u>
		<u>\$ -</u>	<u>\$ 20,180</u>	<u>\$ -</u>	<u>\$ 20,180</u>

(4) Commitments and Contingencies

Leases

The Authority leases space under an operating lease as of September 30, 2020 and 2019.

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

<u>Year ending September 30,</u>	<u>Total</u>
2021	15,600
2022	16,800
2023	<u>16,800</u>
	<u>\$ 49,200</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

(4) Commitments and Contingencies, Continued

Self Insurance

The Authority purchases insurance to cover risks associated with its buildings and equipment and vehicles. There have been no significant reductions in coverage, and there have been no settlements in excess of insurance coverage occurred during the years ended September 30, 2020 and 2019.

Litigation

In the ordinary course of business, claims may be filed against the Authority. Management has represented that no losses have been filed or are expected to be filed for Authority activity for the years ended September 30, 2020 and 2019.

(5) Related Party Transactions

The Authority's services are provided to its affiliates at the same rates as are charged to third parties. The Authority is a component unit of the FSM National Government.

During the years ended September 30, 2019, the Authority received operating subsidies of \$150,000 from the FSM National Government and \$647,566 and \$229,361, during the years ended September 30, 2020 and 2019, respectively, from the World Bank, for the purpose of conducting its operations. The Authority also received a donation of capital assets of \$14,960 during September 30, 2019 from components of the FSM National Government. During the year ended September 30, 2020, approximately 99% of operating revenues derived from the FSM Telecommunication Corp. and approximately 1% from FSM Telecommunications Cable Corp.

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
Telecommunication Regulation Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia (FSM) Telecommunication Regulation Authority (the Authority), which comprise the statement of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

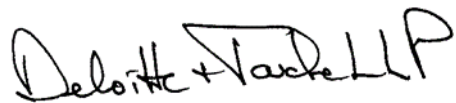
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

November 2, 2021