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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2020 AND 2019

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

Years Ended December 31, 2020 and 2019
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INDEPENDENT AUDITORS' REPORT

Board of Directors
FSM Telecommunications Cable Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federated States of Micronesia Telecommunications Cable Corporation (the Company), a component unit of the FSM National Government, which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenue, expenses, and changes in net position and of cash flows for the years 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 FSM Telecommunications Cable Corporation as of December 31, 2020 and 2019, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Asset Realization

As discussed in Note 4 to the financial statements, the Company is involved in a dispute with its sole customer. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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 3-9 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 Company'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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2022, on our consideration of the Company'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 solely 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 effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Deloitte & Touche LLP

March 15, 2022

The following discussion and analysis provide an understanding of the Federated States of Micronesia Telecommunications Cable Corporation (the Company) financial performance for the year ended December 31, 2020. This section has been prepared by management and should be read in conjunction with the Company's financial statements and accompanying notes.

Background

The Federated States of Micronesia (FSM) Telecommunications Cable Corporation (the Company) was incorporated under FSM Public Law No. 18-52 on April 3, 2014 to engage in the business of providing telecommunications services, except radio and television broadcasting, throughout the FSM and to points outside the FSM. The Company's two shareholders, with equal shares, are the Secretary of the Department of Finance and Administration (DoFA) and the Secretary of the Department of Transport, Communications & Infrastructure (DTC&I). The Company is governed by a five-member Board of Directors appointed by the two Shareholders. During the start-up phase of the Company, the FSM National Government (FSMNG) provided financial support through legislative appropriations. After the start-up period, the Company's revenue should solely originate from contributions from Licensed Retail Services Providers. The Company started operations on June 1, 2017.

Financial Highlights

1. Statement of Net Position

Statement of Net Position presents what the Company owns (assets), owes (liabilities) and the net position (the difference between total assets and total liabilities) at the end of the year. The "net position" is one indicator of whether the current financial condition has improved or worsened during the year.

Comparative Statements of Net Position at December 31:

ASSETS	2020	2019	2018 (As Restated)
Current assets:			
Cash	$ 103,883	$ 579,134	$ 503,147
Accounts receivables	683,239	-	-
Subsidy receivable	44,839	230,179	130,931
Prepaid expenses	87,894	87,894	3,000
Total current assets	919,855	897,207	637,078
Depreciable capital assets, net	24,391,981	25,449,811	1,049,901
Capital asset under construction	-	-	130,931
Indefeasible Right of Use	4,348,482	4,534,882	-
	$ 29,660,318	$ 30,881,900	$ 1,817,910
LIABILITIES AND NET POSITION			
Current Liabilities:			
Accounts payable	$ 89,419	$ 127,046	$ 151,142
Retention payable	-	34,557	-
Total current liabilities	89,419	161,603	151,142
Long-term debt	500,000	500,000	500,000
Total liabilities	589,419	661,603	651,142
Net Position:			
Net investment in capital assets	28,740,463	29,984,693	1,180,832
Unrestricted	330,436	235,604	(14,064)
Total net position	29,070,899	30,220,297	1,166,768
	$ 29,660,318	$ 30,881,900	$ 1,817,910

2. Summary Statement of Revenues, Expenses and Changes in Net Position

The following table provides information on the financial performance of the current year in terms of revenues and expenses. It presents the operating expenses as well as non-operating revenues.

Below is the comparative summary of Statement of Revenues, Expenses and Changes in Net Position for the years ended December 31:

	2020	2019	2018 (As Restated)
Operating revenue:			
Capacity charges	$ 847,972	$ 469,117	$ -
Operating expenses:			
Depreciation and amortization	1,275,227	873,752	6,168
Professional fees	606,848	262,252	268,564
Payroll	285,207	189,736	48,292
Support Costs - Network Operations Centre	244,460	126,580	-
Marine maintenance	205,744	157,462	29,923
Storage cost	36,200	44,111	12,291
Advertising	29,616	68,783	9,563
Bank service charges	23,889	21,709	41,467
Rent	20,940	20,219	18,270
Office supplies	9,304	9,399	6,192
Communications	7,825	6,364	6,222
Landing party cost	5,198	59,713	-
Travel	3,327	45,431	79,433
Repairs and Maintenance	575	25,295	757
Meal and entertainment	198	2,591	1,652
Shipping cost	-	11,356	-
Loss on lease cancellation	-	-	38,400
Miscellaneous	14,647	16,750	6,486
Total operating expenses	2,769,205	1,941,503	573,680
Operating loss	(1,921,233)	(1,472,386)	(573,680)
Nonoperating revenues (expenses):			
World Bank grant	739,631	351,499	197,295
FSM National Government appropriations	-	500,000	1,413,627
Other income	987	-	2,400
Interest income	220	1,009	675
Total nonoperating revenues	740,838	852,508	1,613,997
Capital contributions from FSM National Government	-	28,980,828	-
Capital contributions from World Bank	30,997	692,579	130,931
Total capital contributions	30,997	29,673,407	130,931
Change in net position	(1,149,398)	29,053,529	1,171,248
Net position at beginning of year	30,220,297	1,166,768	(4,480)
Net position at end of year	$29,070,899	$ 30,220,297	1,166,768

3. Summary Statement of Cash Flows

The following table presents information about changes in the cash position using the direct method of reporting sources and uses of cash. The direct method reports all major cash inflows and outflows at gross amounts, differentiating the activities into cash flows arising from operating activities and capital and related financing.

Below are the summary Statements of Cash Flows for the years ended December 31

	2020	2019	2018 (As Restated)
Cash flows from operating activities:			
Cash received from customers	$ 164,733	$ 469,117	$ -
Cash paid to suppliers for goods and services	(1,280,955)	(987,005)	(395,378)
Cash payments to employees for services	(285,207)	(189,736)	(48,292)
Net cash used in operating activities	(1,401,429)	(707,624)	(443,670)
Cash flows from capital and related financing activities:			
Acquisitions of capital assets	(30,997)	(662,228)	(1,179,330)
FSM National Government appropriations	-	500,000	1,413627
Capital contributions received from World Bank	30,997	563,051	209,445
Cash received from interest and other income	1,207	1,009	3,075
Proceeds from long-term debt	-	-	500,000
Net cash provided by capital and related financing activities	1,207	401,832	946,817
Cash flows from noncapital and related financing activities			
Nonoperating subsidy from World Bank	924,971	381,779	-
Net change in cash	(475,251)	75,987	503,147
Cash at beginning of year	579,134	503,147	-
Cash at end of year	$ 103,883	$ 579,134	$ 503,147

4. Long-term debt

On September 17, 2018, the Company entered into an interest-free loan with the FSMNG for $500,000, to support its initial operations and as an emergency fund. The loan is uncollateralized and repayment shall commence once the Company has accumulated an equity of $1,000,000 and will be paid out of operational funds. Subject to this clause, repayment was initially set on October 1, 2023 after a five-year grace period and such grace period is subject to review of the parties. After repayment date is confirmed, the loan amount and frequency will be set and the loan is payable over a minimum period of seven years or due on October 1, 2030. The balance outstanding at December 31, 2020, 2019 and 2018 is $500,000.

5. Capital Assets

On March 15, 2019, FSM National Government transferred to the Company the custody and maintenance of the new submarine cable system constructed under the financing agreement namely Yap Spur and Chuuk-Pohnpei Cable in the amount of $9,455,738 and $15,373,400, respectively. During 2019, the Yap and C-P assets further increased after fulfillment of Billing Milestones and consequent payments to contractor NEC. See note 2 D to the financial statements for additional information.

Market Introduction

A significant portion of the FSM population remains unserved by affordable and good quality telecommunications services. In 2014, the FSM government passed the Telecommunications Act, which created the legal framework for the liberalization of the telecommunications market. A key component of this act was the establishment of an Open Access Entity (OAE) currently known as the Company, to own and operate FSM's fiber optic cable investments and to provide, on a wholesale basis, international and domestic bandwidth to within the territory of FSM. OAE was formally incorporated in May 2017. As a wholesale-only provider, the Company will not participate in retail markets, but rather provide bandwidth to Licensed Retail Services Providers in FSM who will provide retail services to end users.

The Company has been funded by the FSM National Government (FSMNG) to own and operate FSM's fiber optic submarine cable investments that have been assigned to the company by the FSMNG. Currently, it owns submarine cables and Indefeasible Rights of Use (IRU) in:

- Yap-Guam: OAE holds an IRU with Telin from Indonesia in optical wavelengths in the SEA- US cable system and owns the so-called Yap spur, the submarine able from Yap to the main SEA-US cable;
- Chuuk-Pohnpei: OAE owns a submarine cable system connecting Chuuk and Pohnpei; and
- Pohnpei-Guam: OAE has secured an IRU with FSMTC that entitles it to 50% capacity on one fiber pair in the main HANTRU-1 cable.

The FSMNG alongside the Governments of Kiribati and Nauru have signed a grant funding agreement with World Bank and Asian Development Bank for a fiber optic submarine cable network, the East Micronesia Cable System (EMCS) that will be owned as a whole by all 3 parties equally. The Company represents the FSMNG for its share of the EMC system. This cable is due to connect Kosrae and the other island states in 2023 with Pohnpei.

The FSMNG and World Bank have signed a financing agreement in May 2020 to grant-fund the project Digital FSM. The Company acts as the Implementing Agency for the infrastructure part of the project that intends to develop an open access fiber to the home network for the residents of Pohnpei Island, Yap and Kosrae. The Chuuk Island of Weno has a fiber cable already (owned by FSMTC) and the Company and the Chuuk State Government are assessing what additional open access telecommunications infrastructure would be of benefit for the residents of Chuuk. Another part of the project is to provide improved communications services for the Chuuk Lagoon Islands and outer islands of all 4 FSM States.

The establishment of the Company is anticipated to result in dramatically decreased bandwidth costs for FSM Telecommunications Corporation (FSMTC) and other licensed retail service providers, as the capital costs of the network (submarine cable- and fiber to the home networks) are fully grant-funded by World Bank and as such not costs that the Company needs to recover from those accessing the network.

<u>Achievements of the Company</u>

The installation process for the cable system for Yap has been completed and the cable entered into service on June 28, 2018. Installation of the Cable System that connects Chuuk to Pohnpei is also completed, the cable entered into service on April 27, 2019. Provisional acceptances for the Yap and Chuuk-Pohnpei cable systems have been issued to the supplier, NEC of Japan. Work on the deficiency lists is nearly complete. Acceptance of other major work is progressing and acceptance processes for civil works for the beach manhole, front haul, and coastal erosion mitigation have been completed during the year 2019.

The terms of the collaboration between FSM, Kiribati and Nauru for the supply, installation and operations & maintenance of the EMC system have also been agreed, pursuant to a Construction and Maintenance Agreement (C&MA) and the EMCS IRU Deed signed by the implementing entities for each of the three countries on April 15, 2019. A Memorandum of Mutual Support (MoMS) has been signed by the Governments of FSM, Kiribati and Nauru. An EMCS Management Committee has been established to manage installation and future Operations and Maintenance in the broadest sense.

During 2020, procurement documents (Request for Bid) for the supply and installation of the EMC system have been issued but unfortunately the Request for Bid had to be cancelled in the first quarter of 2021 because of non-responsiveness of the bids. In December of 2021 the three EMC countries have accepted an offer for alternative EMCS funding from Australia, Japan and the USA.

The Company's role is to manage current - and implement new submarine cable and terrestrial fiber network assets. World Bank grants were given on the condition that the submarine cable assets would be managed on a non-for-profit basis with equal, non-discriminatory access for all licensed retail services providers within FSM. The Company will invoice its customers based on its own costs of operations while adding a 5% mark-up for contingency. As a result, the operations have been managed with very limited resources initially but with assistance of international consultants that have partially been paid out of World Bank grants.

The professional services fees and travel costs included as operating expenses in the statements of revenues, expenses, and changes in net position reflect the part of the expense that is attributable to the Company. The reported operating expense reflect the start-up phase of the Company. Relative high costs for professional fees and travel and low payroll costs; total staff full-time equivalent (FTE) in 2018 was less than two FTE. In the meantime, a CEO has been recruited in 2019 and the amount of FTE for 2019 was four at year end. In 2020, FTE remained at four. The CEO's salary is partly paid from World Bank grant funds.

Operations & Maintenance costs

Telin IRU

Telin IRU O&M, the annual costs for the IRU are $233,000 (5% of the IRU price of $4,660,000) and are stipulated in the IRU. The Telin IRU has been assigned to the Company in May 2019. Starting July 2019, the Company has taken over the quarterly payments to Telin from the FSMNG. The Company has paid Telin $233,000, $116,500 and $0 in 2020, 2019 and 2018, respectively.

Marine Maintenance

A marine maintenance contract guarantees the fastest possible start of cable repair if a cable malfunctions caused by a cable cut. A stand by repair ship leased by the South Pacific Marine Maintenance Association (SPMMA) will sail out within 4 hours after calling in a request for assistance. Although the daily price of the ship is significant reduced compared to the commercial prices on the shipping spot market a "quick repair" will take at least 3 weeks and in general costs approximately USD 1 million. Full year costs for Yap and Chuuk-Pohnpei in 2020, 2019 and 2018 are $205,744, $157,462 and $29,923, respectively.

Storage costs of Cable spare parts.

It is common practice that spare parts are procured during the commissioning period of the cable system. The spare parts need to be stored in a safe environment in Guam. The Company has a spare parts sharing agreement with BSCC, the Palau Open Access Entity that fulfills a similar role in Palau as the Company in FSM. The Company's share of the storage costs is $36,200, $44,111 and $12,291 in 2020, 2019 and 2018, respectively.

Credit facility at FSM Development Bank

The Company does not have an emergency repair fund but has two credit facilities at the FSM Development Bank with a total value of $2,000,000. The costs of the facilities are 1% the facility per annum.

Backhaul and cross connect in Guam

The company has a contract with GTA Guam to connect the Cable Landing Stations of the SEA -US cable that connects to Yap and the Hantru Cable that connects to Pohnpei. The costs are $40,200 per year.

Future Developments

The 2014 Telecommunications Act created the legal framework for the liberalization of the FSM telecommunications market, including the establishment of an independent regulator, the Telecommunications Regulatory Authority (TRA).

The TRA is developing rules and instruments to enable the liberalization of the sector. These instruments will clearly establish the framework under which a liberalized FSM telecommunications sector will operate and are intended to create a transparent foundation upon which to build a competitive sector. TRA expects to issue its final rules for market liberalization during the third quarter of 2019 after which new market entrants may apply for licenses to operate telecommunications services in FSM. For the Company, as a not-for-profit organization, a new entrant on the FSM market would only marginally increase its revenues and associated costs as its operating rules dictate to share its operating costs over all market participants. The current network capacity is sufficient for years to come and does not require extra capital expenditures to meet demand.

The implementation of Fiber-To-The-Home (FTTH) networks will have more impact on the Company's costs and therefore on revenue. Operations and maintenance costs of a future FTTH network will most likely be higher than those of a submarine cable system.

In January 2020, the Company has added its own operational costs to the FSMTC invoice, for an amount of $20,000 per month. Including third party outsourcing costs, the monthly invoice to FSMTC has increased to approximately $65,000 per month.

FSMTC has paid its invoices for the first quarter 2020 in full. In April 2020, the Company has received a message from FSMTC's CEO announcing it would stop paying its invoices to the Company, citing COVID-19 revenue impact as the reason. As per the FSMTC-OAE IRU deed, the Company has sought assistance from TRA to resolve the payment dispute. FSMTC announced it no longer recognized the FSMTC-OAE IRU Deed as the contract governing the relationship between FSMTC and OAE, although until year end 2020, FSMTC did not challenge the IRU Deed in court. FSMTC is now, at year end 2020, $585,000 behind in payments to the Company. During 2021 the Company started litigation against FSMTC before the FSM Supreme Court in Pohnpei. The litigation is still pending. At year end 2021, FSMTC owed the Company almost $1,400,000.

Financial Management Contact

This Management's Discussion and Analysis is designed to provide our citizens, taxpayers, customers, creditors, and other interested parties, with a general overview of the Company's finances and to demonstrate the Company's accountability and transparency for the appropriations it receives. Questions concerning any of the information provided in this discussion and analysis or request for additional information should be addressed to the Chief Executive Officer, FSM Telecommunications Cable Corporation, P.O. Box 2202, Kolonia, Pohnpei FM 96941, or call (691) 320-2606.

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

Statements of Net Position
December 31, 2020 and 2019

ASSETS	2020	2019
Current assets:		
Cash	$ 103,883	$ 579,134
Accounts receivable	683,239	-
Subsidy receivable	44,839	230,179
Prepaid expenses	87,894	87,894
Total current assets	919,855	897,207
Depreciable capital assets, net	24,391,981	25,449,811
Indefeasible right of use	4,348,482	4,534,882
	$ 29,660,318	$ 30,881,900
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable	$ 89,419	$ 127,046
Retention payable	-	34,557
Total current liabilities	89,419	161,603
Long-term debt	500,000	500,000
Total liabilities	589,419	661,603
Commitments and contingencies		
Net position:		
Net investment in capital assets	28,740,463	29,984,693
Unrestricted	330,436	235,604
Total net position	29,070,899	30,220,297
	$ 29,660,318	$ 30,881,900

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
Operating revenue		
Capacity charges	$ 847,972	$ 469,117
Operating expenses:		
Depreciation and amortization	1,275,227	873,752
Professional fees	606,848	262,252
Payroll	285,207	189,736
Support costs - Network Operations Centre	244,460	126,580
Marine maintenance	205,744	157,462
Storage cost	36,200	44,111
Advertising	29,616	68,783
Bank service charges	23,889	21,709
Rent	20,940	20,219
Miscellaneous	14,647	16,750
Office supplies	9,304	9,399
Communications	7,825	6,364
Landing party cost	5,198	59,713
Travel	3,327	45,431
Repairs and maintenance	575	25,295
Meals and entertainment	198	2,591
Shipping cost	-	11,356
Total operating expenses	2,769,205	1,941,503
Operating loss	(1,921,233)	(1,472,386)
Nonoperating revenues:		
World Bank grant	739,631	351,499
FSM National Government appropriations	-	500,000
Other income	987	-
Interest income	220	1,009
Total nonoperating revenues	740,838	852,508
Capital contributions from FSM National Government	-	28,980,828
Capital contributions from World Bank	30,997	692,579
Total capital contributions	30,997	29,673,407
Change in net position	(1,149,398)	29,053,529
Net position at beginning of year	30,220,297	1,166,768
Net position at end of year	$ 29,070,899	$ 30,220,297

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	$ 164,733	$ 469,117
Cash paid to suppliers for goods and services	(1,280,955)	(987,005)
Cash payments to employees for services	(285,207)	(189,736)
Net cash used in operating activities	(1,401,429)	(707,624)
Cash flows from capital and related financing activities:		
Acquisitions of capital assets	(30,997)	(662,228)
FSM National Government appropriations	-	500,000
Capital contributions received from World Bank	30,997	563,051
Cash received from interest and other income	1,207	1,009
Net cash provided by capital and related financing activities	1,207	401,832
Cash flows from noncapital and related financing activities:		
Nonoperating subsidy from World Bank	924,971	381,779
Net change in cash	(475,251)	75,987
Cash at beginning of year	579,134	503,147
Cash at end of year	$ 103,883	$ 579,134
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (1,921,233)	$ (1,472,386)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,275,227	873,752
Changes in assets and liabilities:		
Accounts receivable	(683,239)	-
Prepaid expenses	-	(84,894)
Accounts payable	(37,627)	(24,096)
Retention payable	(34,557)	-
	$ (1,401,429)	$ (707,624)
Supplementary schedule of noncash transactions:		
Capital contributions from FSM National Government	$ -	$ 28,980,828
Depreciable capital assets, gross amount	-	(25,608,592)
Depreciable capital assets - accumulated depreciation	-	394,427
Capital asset under construction	-	744,897
Retention payable	-	34,557
Indefeasible Right of Use	-	(4,660,000)
Indefeasible Right of Use - accumulated amortization	-	113,883
World Bank grant	(44,839)	(230,179)
Subsidy receivable	44,839	230,179
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

The Federated States of Micronesia (FSM) Telecommunications Cable Corporation (the Company) was incorporated under FSM Public Law No. 18-52 on April 3, 2014 to engage in the business of providing telecommunications services, except radio and television broadcasting, throughout the FSM and to points outside the FSM. The Company is governed by a five-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governor of each State (with the advice and consent of the respective State Legislatures). The FSM National Government (FSMNG) provides financial support to the Company through legislative appropriations and has the ability to impose its will on the Company. The Company started operations on June 1, 2017.

(2) Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and 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: Omnibus – an amendment of GASB Statements No. 14 and No. 34,* establish financial reporting standards for governmental entities, which includes the requirement for the Company to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements. These statements also require 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 Company is subject to externally imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or expiration by the passage of time. The Company has no restricted net position at December 31, 2020 and 2019.

- Unrestricted – net position that is not subject to externally imposed stipulations. Unrestricted net position may be designed for specific purposes by action by management or the Board of Directors or may be otherwise be limited by contractual agreements with outside parties.

A. Basis of Accounting

The Company is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included in the statements of net position. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

(2) Summary of Significant Accounting Policies, Continued

B. Cash

For the purposes of statements of net position and of cash flows, cash is defined as cash on hand and cash in checking and savings accounts. At December 31, 2020 and 2019, total cash was $103,883 and $579,134, respectively, and the corresponding bank balance of $107,929 and $578,624, respectively, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of $107,929 and $254,991 were FDIC insured as of December 31, 2020 and 2019, respectively. The Company does not require collateralization of its cash deposits; therefore, deposits levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial risks. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

C. Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses.

D. Capital Assets

Depreciable capital assets are stated at cost. The cost of fixed assets, if greater than $250, is capitalized at the time of acquisition. Depreciation is calculated using the straight-line basis over the estimated useful lives of the respective assets. The cost of maintenance and repairs is charged to operating expenses.

Capital asset activity for the years ended December 31, 2020 and 2019, are as follows:

	Estimated Useful Lives	Balance at January 1, 2020	Additions and Transfers	Deletions and Transfers	Balance at December 31, 2020
Depreciable capital assets:					
Submarine Cable Landing Station	25 years	$ 26,606,077	$ -	$ -	$ 26,606,077
Computers and servers	5 years	11,777	-	-	11,777
Vehicles	5 years	11,387	-	-	11,387
Office equipment	5 years	51,395	30,997	-	82,392
Furniture and fixtures	5 years	32,862	-	-	32,862
		26,713,498	30,997	-	26,744,495
Less accumulated depreciation		(1,263,687)	(1,088,827)	-	(2,352,514)
Depreciable capital assets, net		$ 25,449,811	$ (1,057,830)	$ -	$ 24,391,981

(2) Summary of Significant Accounting Policies, Continued

D. Capital Assets, Continued

	Estimated Useful Lives	Balance at January 1, 2019	Additions and Transfers	Deletions and Transfers	Balance at December 31, 2019
Depreciable capital assets:					
Submarine Cable Landing Station	25 years	$ 997,485	$ 24,829,138	$ 779,454	$ 26,606,077
Computers and servers	5 years	8,033	3,744	-	11,777
Vehicles	5 years	11,387	-	-	11,387
Office equipment	5 years	6,877	44,518	-	51,395
Furniture and fixtures	5 years	32,862	-	-	32,862
		1,056,644	24,877,400	779,454	26,713,498
Less accumulated depreciation		(6,743)	(1,256,944)	-	(1,263,687)
Depreciable capital assets, net		1,049,901	23,620,456	779,454	25,449,811
Non-depreciable capital assets:					
Capital assets under construction		130,931	648,523	(779,454)	-
Total capital assets, net		$ 1,180,832	$ 24,268,979	$ -	$ 25,449,811

E. Compensated Absences

It is the Company’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave as of December 31, 2020 and 2019. Accrued vacation pay is not material to the financial statements.

F. Indefeasible Right of Use (IRU) Agreement

On February 2, 2018, FSM Telecommunication Corporation (“FSMTC”), a related party, and the Company entered into a deed granting the Company a 25-year indefeasible exclusive right of use of fifty percent (50%) of the total available capacity on one fiber pair in the main HANTRU-1 submarine cable. FSMTC will not charge the Company for the conveyances of the IRU granted under the agreement to recover FSMTC’s sunk costs in, or to earn a profit on, its investment in the properties and facilities in which it has granted the Company’s right of use. In December 9, 2019, FSMNG assigns to the Company all of its rights, titles and interests, and obligations, under the IRU Agreement, and transferred the IRU in the amount of $4,660,000 with accumulated depreciation of $113,883. The IRU shall continue in effect until the West Subsystem is decommissioned. In certain conditions, either party may initiate a termination of IRU, otherwise it is for the life of the Cable system (25 years). Accumulated amortization of $311,518 and $125,118 has been recorded as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the IRU carrying amount is $4,348,482 and $4,534,882, respectively.

The deed further provides that costs incurred by the Company to renovate and refurbish the existing building at the Yap Cable Landing Station will constitute full and complete consideration for the IRU and other rights and privileges in the site for the Yap Cable Landing Station granted by FSMTC to the Company and the Company will not pay FSMTC any further consideration for such use.

(2) Summary of Significant Accounting Policies, Continued

F. Indefeasible Right of Use (IRU) Agreement, Continued

The deed provides that for as long as FSMTC is the only authorized retail communications service provider in the FSM, in consideration of the Company satisfying FSMTC's requirements for international and interstate connectivity services within FSM on the routes traversed by the submarine cable system in which the Company has interest, it will charge FSMTC, and FSMTC will pay the Company on a monthly basis, all of the amounts chargeable to the Company. The payment will be treated as a recurring lump-sum payment and not a per-unit and/or per-route capacity usage charge. As long as FSMNG owns both entities, the Company will pay the costs of any designated capacity upgrade or provisioning on the cable system.

G. Valuation of Long-Lived Assets

The Company using its best estimate based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amounts of its assets might not be recoverable. At December 31, 2020 and 2019, no assets had been written down.

H. Deferred Outflows of Resources

In addition to assets, the statements 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 Company has no items that qualify for reporting in this category.

I. Deferred Inflows of Resources

In addition to liabilities, the statements 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 Company has no items that qualify for reporting in this category.

J. New Accounting Standards

During the year ended December 31, 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.

(2) Summary of Significant Accounting Policies, Continued

J. New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of 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 material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending December 31, 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 December 31, 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 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. 89 will be effective for fiscal year ending December 31, 2021.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statement Nos. 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 material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending December 31, 2021.

(2) Summary of Significant Accounting Policies, Continued

J. New Accounting Standards, Continued

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 December 31, 2022.

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. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending December 31, 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. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending December 31, 2022.

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 December 31, 2023.

(2) Summary of Significant Accounting Policies, Continued

J. New Accounting Standards, Continued

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 December 31, 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending December 31, 2022.

K. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) require management to make estimates and assumptions that affect the reported amounts of net position 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.

L. Risk Management

The Company is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Company has elected to purchase automobile, property, and casualty insurance from an independent third party for the risks of loss to which it is exposed. The Company is substantially self-insured for all other risks. Settled claims have not exceeded commercial coverage in any of the past two years.

(3) Long-Term Debt

On September 17, 2018, the Company entered into a $500,000 interest-free loan with the FSMNG to support its initial operations and to be used as an emergency fund. The loan is uncollateralized and repayment shall commence once the Company has accumulated equity of $1,000,000 and the loan will be paid out of operational funds. Subject to this clause, repayment was initially set on October 1, 2023 after a five-year grace period and such grace period is subject to review of the parties. After repayment date is confirmed, the loan amount and frequency will be set and the loan is payable over a minimum period of seven years or due on October 1, 2030. The balance outstanding at December 31, 2020 and 2019 is $500,000.

Changes in long-term debt for the year ended December 31, 2020, are as follows:

	Balance January 1, 2020	Additions	Reductions	Balance December 31, 2020	Due Within One Year
Loan payable	$ 500,000	$	$ -	$ 500,000	$ -

Changes in long-term debt for the year ended December 31, 2020, are as follows:

	Balance January 1, 2019	Additions	Reductions	Balance December 31, 2019	Due Within One Year
Loan payable	$ 500,000	$ -	$ -	$ 500,000	$ -

(4) Commitments and contingencies

Subsidiary Agreement

On March 6, 2015, the FSMNG and International Development Association (IDA) entered into a financing agreement where IDA made available to FSMNG $47,500,000 in support of activities related to the implementation of the Pacific Regional Connectivity Program 2: Palau-FSM Connectivity Project.

On May 22, 2018, FSMNG and the Company entered into a subsidiary agreement to the financing agreement where FSMNG will make available to the Company, by way of a non-refundable grant basis, the balance of the proceeds of the financing allocated to the project implementing entity to carry out its respective part of the project on the terms and conditions set out in the subsidiary agreement. The subsidiary agreement includes procurement of capacity rights to connect Kosrae to the global communications network and support the construction of the cable landing station, beach manhole, ancillary facilities, ducts and other equipment in connection with new submarine cable system constructed under the financing agreement. For the year ended December 31, 2020, the Company recorded nonoperating grant revenues and capital contributions from World Bank of $739,631 and $30,997, respectively. For the year ended December 31, 2019, the Company recorded nonoperating grant revenues and revenues and capital contributions from World Bank of $351,499 and $692,579, respectively.

The subsidiary agreement also requires the Company to maintain an aggregate of at least $1,000,000 of equity and shareholder's loan and one or more lines of credit facilities, in an aggregate amount of at least $2,000,000 from FSM Development Bank, a component unit of FSMNG. Accordingly, on May 28, 2018, the Company secured two lines of credit at $1,000,000 each from the FSM Development Bank. The credit is available and can be reapplied for an extension. There were no disbursements from the lines of credit as of December 31, 2020.

Lease

The Company leased office space with terms expiring on February 28, 2021, renewable for another three years.

Future minimum lease payments, inclusive of renewal options, are as follows:

Year ending December 31,	Minimum Lease Payment Due
2021	18,000
2022	18,000
2023	18,000
2024	3,000
	$ 57,000

Uncertainty

The Company has not subsequently collected a substantial portion of recorded receivables from its sole customer due to an ongoing dispute. Management is of the opinion that this dispute will be resolved in its favor but at this time, cannot predict when resolution will occur. No adjustments for this matter have been made in the accompanying financial statements due to uncertainty surrounding ultimate resolution.

(5) Related Party Transaction

On March 15, 2019, FSM National Government transferred to the Company the custody and maintenance of the new submarine cable system constructed under the financing agreement, namely Yap Spur, in the amount of $9,455,738, with accumulated depreciation of $266,315 and Chuuk-Pohnpei Cable in the amount of $15,373,400, with accumulated depreciation of $128,112. The carrying value of Yap Spur and Chuuk-Pohnpei Cable as of December 31, 2020 amounts to $8,509,646 and $14,143,528, respectively.

The Company, as a component unit of FSMNG, received appropriations for its operational needs. For the years ended December 31, 2020 and 2019, cash subsidies received from the FSM National Government were $0 and $500,000, respectively.

The Company had capacity revenue transactions with FSMTC of $847,972 and $469,117 for the year ended December 31, 2020 and 2019, respectively.

(6) Subsequent Events

Management has considered subsequent events through March 15, 2022, upon which the financial statements were available to be issued. Except for the matter discussed below, there were no other material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2020.

Subsequent to December 31, 2020, the Company has not collected a substantial portion of its billings to its sole customer. Uncertainties have arisen, which may have a negative impact on the Company's financial and operational results, especially in the fair value of its submarine cable system. Such potential impacts are unknown at this time.

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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*

The Board of Directors
FSM Telecommunications Cable Corporation:

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 Telecommunications Cable Corporation (the Company), which comprise the statement of net position as of December 31, 2020, and the related statements of revenues and 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 March 15, 2022. Our report included an emphasis-of-matter paragraph regarding an uncertainty.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company'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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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.

Deloitte.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company'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.

Deloitte + Touche LLP

March 15, 2022

Unresolved Prior Year Findings
December 31, 2020

There are no unresolved findings from prior year audits of the Company.