Financial Statements and
Required Supplementary Information

Federated States of Micronesia Telecommunications Cable Corporation

(A Component Unit of the Federated States of Micronesia National Government)

Year Ended December 31, 2022
with Report of Independent Auditors

Building a better working world

Federated States of Micronesia
Telecommunications Cable Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Financial Statements and Required Supplementary Information

Year Ended December 31, 2022

Contents

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Report of Independent Auditors

Board of Directors
Federated States of Micronesia Telecommunications Cable Corporation:

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the Federated States of Micronesia (FSM) Telecommunications Cable Corporation (the Company), a component unit of the FSM National Government, which comprise the statements of net position as of December 31, 2022, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 May 21, 2024, 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.

Ernst + Young LLP

May 21, 2024

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, 2022. 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 aka OAE) 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. Statements 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, 2022 and 2021:

ASSETS	2022	2021
Current assets:		
Cash	$ 99,413	$ 315,681
Receivable from an affiliate	---	1,379,516
Subsidy receivable	116,642	223,117
Prepaid expenses	4,778	97,894
Total current assets	220,833	2,016,208
Receivable from an affiliate, net	782,736	---
Depreciable capital assets, net	22,279,949	23,300,054
Right of use asset	5,377	---
Indefeasible right of use	3,975,682	4,162,082
	$27,264,577	$29,478,344

LIABILITIES AND NET POSITION	2022	2021
Current Liabilities:		
Accounts payable	$ 289,107	$ 421,157
Current portion of long-term debt	340,575	271,115
Lease liabilities, current	21,160	---
Total current liabilities	650,842	692,272
Long-term debt, net of current portion	612,821	878,885
Lease liabilities, net of current portion	6,196	---
Total liabilities	1,269,859	1,571,157
Net Position:		
Net investment in capital assets	26,255,631	27,462,136
Unrestricted	(260,913)	445,051
Total net position	25,994,718	27,907,187
	$27,264,577	$ 29,478,344

2. Summary Statements 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 31,2022 and 2021:

	2022	2021
Operating revenue:		
Capacity charges	$ 782,736	$ 782,736
Bad debt	(1,379,515)	---
Operating (cost) revenue, net	(596,779)	782,736
Operating expenses:		
Depreciation and amortization	1,206,506	1,278,327
Professional fees	957,988	949,900
Payroll	329,433	303,911
Support costs - network operations centre	---	233,000
Marine maintenance	437,445	192,740
Legal cost	61,877	125,660
Landing party cost	69,460	54,436
Storage cost	37,475	31,269
Rent	74,700	31,105
Office supplies	8,344	19,700
Repairs and maintenance	12,314	12,120
Training	---	9,000
Communications	6,278	7,111
Bank service charges	710	2,590
Loan fees	20,000	---
Travel	2,747	687
Miscellaneous	101,924	24,252
Total operating expenses	3,327,201	3,275,808
Operating loss	(3,923,980)	(2,493,072)

	2022	2021
Nonoperating revenues (expenses):		
World Bank grant	1,200,033	994,156
FSM National Government appropriations	850,000	500,000
Other income	---	1,330
Interest expense	(38,590)	---
Interest income	68	125
Total nonoperating revenues	2,011,511	1,495,611
Change in net position	(1,912,469)	(997,461)
Net position at beginning of year	27,907,187	28,904,648
Net position at end of year	$25,944,718	$ 27,907,187

3. Summary Statements 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, 2022 and 2021:

	2022	2021
Cash flows from operating activities:		
Cash received from customers	$ 1,379,516	$ ---
Cash paid to suppliers for goods and services	(3,187,732)	(1,505,889)
Cash payments to employees for services	(329,433)	(262,661)
Net cash used in operating activities	(2,137,649)	(1,768,550)
Cash flows from capital and related financing activities:		
FSM National Government appropriations	850,000	500,000
Proceeds from long-term debt	---	650,000
Repayments of long-term debt	(196,604)	---
Interest paid on long-term debt	(38,590)	---
Cash received from interest and other income	68	1,455
Net cash provided by capital and related financing activities	614,874	1,151,455
Cash flows from noncapital and related financing activities:		
Nonoperating subsidy from World Bank	1,306,507	828,893
Net change in cash	(216,268)	211,798
Cash at beginning of year	315,681	103,883
Cash at end of year	$ 99,413	$ 315,681

5. 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, 2022 and 2021 is $500,000. Refer to note 4 of the financial statements for additional discussions on long-term debt.

6. 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.

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 2025 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.

Achievements of the Company

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 EMC Cable System is scheduled to be completed in 2025.

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 2022, FTE remained at four. Until July 2022, CEO's salary was partly paid from World Bank grant funds.

Operations & Maintenance costs

<u>Telin IRU</u>

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, $233,000, $233,000, $116,500 and $0 in 2022, 2021, 2020, 2019 and 2018, respectively.

<u>Marine Maintenance</u>

A marine maintenance contract guarantees the fastest possible start of cable repair if a cable malfunction 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 2022, 2021, 2020, 2019 and 2018 are $204,445, $192,740, $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 part 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 $37,476, $31,269, $36,200, $44,111 and $12,291 in 2022, 2021, 2020, 2019 and 2018, respectively.

Credit facility at FSM Development Bank

The Company has two credit facilities, an emergency repair fund and an operations LOC at the FSM Development Bank with a total value of $2,000,000, $1,000,000 each. The costs of the facilities are 1% loan fee the facility per annum with an interest at 5% on outstanding borrowing.

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 issued 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 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 2021, $1,369,788 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 2022, FSMTC owed the Company almost $2,160.000.

Management's Discussion and Analysis for the year ended December 31, 2021 is set forth in Company's report on the audit of financial statements, which is dated December 5, 2022. That Discussion and Analysis explains the major factors impacting the 2021 financial statements and can be viewed at the Office of the FSM National Public Auditor's website at www.fsmopa.fm.

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 Federated States of Micronesia National Government)

Statement of Net Position

December 31, 2022

Assets	
Current assets:	
Cash	$ 99,413
Subsidy receivable	116,642
Prepaid expenses	4,778
Total current assets	220,833
Receivable from affiliate, net	782,736
Depreciable capital assets, net	22,279,949
Indefeasible right of use	3,975,682
Right-of-use asset	5,377
	$27,264,577
Liabilities and Net Position	
Current liabilities:	
Accounts payable	$ 289,107
Current portion of long-term debt	340,575
Lease liabilities, current	21,160
Total current liabilities	650,842
Long-term debt	112,821
Concession loan payable to FSM National Government	500,000
Lease liabilities, net of current portion	6,196
Total liabilities	1,269,859
Commitments and contingencies	
Net position:	
Net investment in capital assets	26,255,631
Unrestricted	(260,913)
Total net position	25,994,718
	$27,264,577

See accompanying notes.

Federated States of Micronesia
Telecommunications Cable Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended December 31, 2022

Operating revenue:	
Capacity charges	$ 782,736
Bad debt expense	(1,379,515)
Operating revenue, net	(596,779)
Operating expenses:	
Depreciation and amortization	1,206,506
Professional fees	957,988
Marine maintenance	437,445
Payroll	329,433
Rent	74,700
Landing party cost	69,460
Legal cost	61,877
Storage cost	37,475
Loan late payment fees	20,000
Repairs and maintenance	12,314
Office supplies	8,344
Communications	6,278
Travel	2,747
Bank service charges	710
Miscellaneous	101,924
Total operating expenses	3,327,201
Operating loss	(3,923,980)
Nonoperating revenues (expenses):	
World Bank grant	1,200,033
FSM National Government appropriations	850,000
Interest expense	(38,590)
Interest income	68
Total nonoperating revenues	2,011,511
Change in net position	(1,912,469)
Net position at beginning of year	27,907,187
Net position at end of year	$25,994,718

See accompanying notes.

Federated States of Micronesia
Telecommunications Cable Corporation
(A Component Unit of the Federated States of Micronesia National Government)

Statement of Cash Flows

Year Ended December 31, 2022

Cash flows from operating activities:	
Cash received from customers	$ 1,379,516
Cash paid to suppliers for goods and services	(3,187,732)
Cash paid to employees for services	(329,433)
Net cash used in operating activities	(2,137,649)
Cash flows from capital and related financing activities:	
FSM National Government appropriations	850,000
Cash received from interest and other income	68
Repayments of long-term debt	(196,604)
Interest paid on long-term debt	(38,590)
Net cash provided by capital and related financing activities	614,874
Cash flows from noncapital and related financing activities:	
Nonoperating subsidy from World Bank	1,306,507
Net change in cash	(216,268)
Cash at beginning of year	315,681
Cash at end of year	$ 99,413
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$(3,923,980)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	1,206,506
Noncash operating lease expense	21,979
Changes in assets and liabilities:	
Receivable from affiliate, net	596,780
Prepaid expenses	93,116
Accounts payable	(132,050)
	$(2,137,649)
Supplementary schedule of noncash transactions:	
Right of use asset	$ 45,507
Lease liability	(45,507)
Professional fees and other expenses	289,107
Accounts payable	(289,107)
World Bank grant	(116,642)
Subsidy receivable	116,642
	$ ---

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Nature of Operations

The Federated States of Micronesia (FSM) Telecommunications Cable Corporation (the Company) was incorporated under FSM Public Law No. 18-52 dated 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.

Organization

The Company finalized its corporation in April 2017 with an initial Board of Directors consisting of three members. The article of incorporation requires a minimum of three members and no more than five members; directors shall be appointed and removed from time to time in the manger prescribed by Section 390(2) of Title 21 of the FSM Code. The Company is authorized to issue an aggregate of one thousand common shares, without par value, comprising only one class of shares. The Company may only issue shares to the Government of FSM, which shall subscribe for and hold shares in equal numbers through the Secretary of Finance & Administration and the Secretary of Transportation, Communication & Infrastructure, or their successors. 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.

Basis of Accounting

The Company maintains a chart of accounts in accordance with accounting principles generally accepted in the United States of America (GAAP). Additionally, the Company 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.

1. Organization and Summary of Significant Accounting Policies, continued

Basis of Accounting, continued

- 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 that expire by the passage of time. The Company has no restricted net position at December 31, 2022.

- 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.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in bank demand deposit and saving accounts.

Custodial credit risk is the risk that in the event of a bank failure, the Company'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 or held by the pledging financial institution but not in the depositor-government's name. The Company does not have a deposit policy for custodial credit risk.

As of December 31, 2022, the cash balance was $99,413, and the corresponding bank balance was $99,413, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2022, bank deposits were fully subject to the FDIC insurance coverage limit.

Prepaid Expenses

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

1. Organization and Summary of Significant Accounting Policies, continued

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.

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, 2022, no assets had been written down.

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.

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. Vacation pay is accrued when earned.

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.

Revenue Recognition and Classification

The Company's main source of revenue is capacity charges billed on a monthly basis. During the year ended December 31, 2022, all of the capacity charges are recorded from FSM Telecommunications Company.

Non-operating revenues and expenses result from capital, financing and investing activities and consist of investment earnings, interest paid on long-term debt, and grant funds received for non-capital purposes.

1. Organization and Summary of Significant Accounting Policies, continued

Taxes

The Company has not been assessed or paid any FSM gross revenue or income tax.

Recently Adopted Accounting Pronouncements

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. Upon adoption of this standard, the Company recorded a right-of-use asset and lease liability of $45,507. The adoption of GASB Statement No. 87 did not result in an effect on beginning net position.

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. The adoption of GASB Statement No. 89 did not result in a material effect on the accompanying financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 did not have an effect on the accompanying financial statements.

1. Organization and Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address the accounting and financial reporting effects that result from the replacement of IBORs with other reference rates in order to preserve the reliability, consistency, and comparability of reported information. The adoption of GASB Statement No. 93 did not have an effect on the accompanying financial statements.

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 (a) 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; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (c) 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. The adoption of GASB Statement No. 97 did not have an effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ended December 31, 2023.

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, 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 ended December 31, 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. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ended December 31, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to more easily locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. GASB Statement No. 99 will be effective for fiscal year ended December 31, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending December 31, 2024.

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending December 31, 2025.

The Company is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

2. Capital Assets

Capital asset activity for the year ended December 31, 2022, is as follows:

	Estimated Useful Lives	Balance January 1, 2022	Additions and Transfers	Deletions and Transfers	Balance at December 31, 2022
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	82,392	---	---	82,392
Furniture and fixtures	5 years	32,862	---	---	32,862
		26,744,495	---	---	26,744,495
Less accumulated depreciation		(3,444,441)	(1,020,105)	---	(4,464,546)
Depreciable capital assets, net		$23,300,054	$(1,020,105)	$ ---	$22,279,949

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 and Chuuk-Pohnpei Cable in the amount of $15,373,400. The contributed assets totaled $24,826,138. As of December 31, 2022, the carrying value of Yap Spur and Chuuk-Pohnpei Cable amounted to $7,753,187 and $12,913,656, respectively.

3. 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 depreciation of $186,400. 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).

As of December 31, 2022, the Company's IRU are as follows:

Cost	$4,660,000
Accumulated amortization	(684,318)
IRU, net	$3,975,682

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.

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.

4. Long-term Debt

Loan-term Debt to Bank

On May 28, 2018, the Company secured two lines of credit at $1,000,000 each from FSM Development Bank (FSMDB), a component unit of FSMNG, which can be reapplied for extensions. The two lines of credit were extended to mature on January 1, 2023, which were subsequently renewed to mature on May 11, 2024. On October 1, 2021, the Company drew down $650,000 from one of its lines of credit from FSMDB, with interest rate fixed at 5% per annum. On August 5, 2022, FSMDB restructured the repayment terms with required monthly payments of $29,399 starting March 25, 2022 to February 25, 2024. The balance outstanding at December 31, 2022 is $453,396.

Future minimum debt payments as of December 31, 2022, are as follows:

Year ending December 31,	
2023	$340,575
2024	112,821
	$453,396

Management is of the opinion that the Company is in compliance with financial debt covenants associated with the long-term debts for the year ended December 31, 2022.

FSMNG Concession Loan Payable

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 only 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. The balance outstanding at December 31, 2022 is $500,000. At December 31, 2022, the Company has not accumulated operating equity in order to trigger repayment commencement and does not anticipate any repayment to occur during the year ending December 31, 2023.

A summary of changes in long-term debt for the year ended December 31, 2022 are as follows:

	Balance January 1, 2022	Increases	Decreases	Balance December, 2022	Due Within One Year
Payable:					
FSMDB	$ 650,000	$ ---	$(196,604)	$453,396	$340,575
FSMNG	500,000	---	---	500,000	---
	$1,150,000	$ ---	$(196,604)	$953,396	$340,575

5. 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, 2022, the Company recorded nonoperating grant revenues and capital contributions from World Bank of $1,200,033.

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 FSMDB. Accordingly, on May 28, 2018, the Company secured two lines of credit at $1,000,000 each from the FSM Development Bank, which can be reapplied for extensions.

Litigation

The Company has not collected a substantial portion of recorded receivables from FSMTC due to an ongoing dispute. In May 2021, the Company filed a lawsuit (Civil Action No. 2021-010) against FSMTC for breach of contract and to confirm the validity of the IRU. FSMTC filed a counter claim to set aside the agreement and seeking damages or compensation for the property sought to be confiscated through this agreement.

In July 2023, the FSM Supreme Court trial division entered a judgment of $2,678,197 in favor of the Company for FSMTC's unpaid invoices to the Company computed through July 2023, including post judgment interest accruing at 9% per annum, with attorney fees to be determined. FSMTC filed an appeal of the judgement and a motion to stay enforcement of the judgment pending appeal. It also sought to stop further accruing 9% of interest on the judgmental while the appeal is pending. The Court granted the Stay in an order dated October 9, 2023 with the condition that FSMTC paid into court the judgement amount of approximately $2.8 million as a bond to be placed into a separate account under the Courts' control. Additionally, FSMTC is ordered to pay the Company's monthly invoices since August 2023.

5. Commitments and Contingencies, continued

Litigation, continued

In the Appeal, FSMTC also seeks to recover costs relating to its loan obtained for the construction of the submarine fiber that runs from Pohnpei to the HANTRU1 branching unit, for which no liability has been recorded by the Company.

The Company has not recorded any adjustments in the accompanying financial statements due to uncertainty surrounding ultimate resolution of the pending appeal but believes the net receivable of $782,736 recorded as of December 31, 2022 is recoverable based on the July 2023 judgment.

6. Related Party Transactions

The Company, as a component unit of FSMNG, received appropriations for its operational needs. For the year ended December 31, 2022, cash subsidies received from the FSM National Government was $850,000.

The Company had capacity revenue transactions with FSMTC of $782,736 for the year ended December 31, 2022. At December 31, 2022, receivables from FSMTC totaled $2,162,252, net of an allowance of doubtful account of $1,379,516.

7. Subsequent Events

Except for the matters discussed in Note 4 and Note 5, there were no other material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2022.

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Federated States of Micronesia
Telecommunications 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 (FSM) Telecommunications Cable Corporation (the Company), which comprise the statement of net position as of December 31, 2022, 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 May 21, 2024.

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.

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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.

Ernst + Young LLP

May 21, 2024