

*Financial Statements and
Required Supplementary Information*

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

*Years ended December 31, 2024 and 2023
with Report of Independent Auditors*



**Shape the future
with confidence**

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

Financial Statements and Required Supplementary Information

Years ended December 31, 2024 and 2023

Contents

Report of Independent Auditors.....	1
Management's Discussion and Analysis	4
Audited Financial Statements	
Statements of Net Position.....	13
Statements of Revenues, Expenses, and Changes in Net Position	14
Statements of Cash Flows	15
Notes to Financial Statements.....	16
Compliance and Internal Control	
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 <i>Government Auditing Standards</i>	29

Report of Independent Auditors

Board of Directors
Federated States of Micronesia Telecommunications Cable Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Federated States of Micronesia (FSM) Telecommunications Cable Corporation (the Company), a component unit of the FSM National Government, as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Company's 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 business-type activities of FSM Telecommunications Cable Corporation as of December 31, 2024 and 2023, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Company, 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.

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 Company'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 Company'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 12 be presented to supplement the financial statements. Such information is the responsibility of management and, 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. 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 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 November 21, 2025, 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

November 21, 2025

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

Management's Discussion and Analysis

Years ended December 31, 2024 and 2023

The following discussion and analysis provide an understanding of the Federated States of Micronesia Telecommunications Cable Corporation (the Company) financial performance for the years ended December 31, 2024 and 2023. 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.

The following table summarizes the financial condition of the Company for the years ended December 31, 2024, 2023 and 2022:

Assets	2024	2023	2022
Cash	\$ 310,493	\$ 84,289	\$ 99,413
Receivables from FSMNG	-	173,868	116,642
Prepaid Expenses	-	4,778	4,778
Accounts Receivables	1,174,454	1,199,245	782,736
Fixed Assets, Net	25,557,809	21,472,639	22,279,949
Indefeasible ROU - Telin, Net	3,718,204	3,904,604	3,975,682
Indefeasible ROU - Leased Assets	166,434	78,254	5,377
Total Assets	<u>30,927,394</u>	<u>26,917,677</u>	<u>27,264,577</u>

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

Management's Discussion and Analysis, continued

	2024	2023	2022
Current Liabilities			
Accounts Payable	243,119	376,703	122,384
A/P PY2021 and Prior Year	-	24,015	24,015
Payroll and Benefits Liabilities	18,245	6,834	8,178
Loan Payable - FSMDB	643,863	349,531	453,396
Current Portion of Lease Liabilities	82,860	31,964	21,160
Accrued Liabilities	215,209	34,263	-
Deposit Held	-	49,874	49,874
Professional Fees Payable	-	263,230	84,656
Total Current Liabilities	<u>1,203,296</u>	<u>1,136,414</u>	<u>763,663</u>
Long-Term Liabilities			
Non-Current Portion of Lease Liabilities	90,700	77,933	6,196
Concessional Loan - FSMNG	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Total Long-Term Liabilities	<u>590,700</u>	<u>577,933</u>	<u>506,196</u>
Total Liabilities	<u>1,793,996</u>	<u>1,714,347</u>	<u>1,269,859</u>
Net Position			
Net Investments in Capital Assets	29,276,013	25,377,243	26,255,631
Unrestricted	<u>(142,615)</u>	<u>(173,913)</u>	<u>(260,913)</u>
Total Liabilities & Net Position	<u>\$ 30,927,394</u>	<u>\$ 26,917,677</u>	<u>\$ 27,264,577</u>

2. 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 revenue. The following table summarizes Statement of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2024, 2023 and 2022:

	2024	2023	2022
Operating Revenues			
Capacity Revenues	\$ 860,981	\$ 727,691	\$ 782,736
Bad Debts	<u>-</u>	<u>-</u>	<u>(1,379,515)</u>
Total Operating Revenues	<u>860,981</u>	<u>727,691</u>	<u>(596,779)</u>

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

Management's Discussion and Analysis, continued

Operating Costs	2024	2023	2022
Depreciation and Amortization	1,172,679	1,269,674	1,206,506
Professional Costs	382,691	972,239	957,998
Marine Maintenance	410,177	517,242	437,445
Payroll	292,830	266,757	329,433
Landing Party Costs	102,084	117,712	69,460
Legal Costs	4,907	70,500	61,877
Lease	109,848	65,514	74,700
Postage, Bank Fees, other Fees	850	1,015	760
Storage Costs	29,242	47,972	37,475
Janitorial Costs	2,045	2,006	3,562
Travel	52,917	9,572	2,747
Communications	15,116	9,434	6,278
Office Supplies	10,093	6,329	8,344
Repair & Maintenance	29,201	2,390	12,314
Loan Fees	33,543	11,205	20,000
Miscellaneous Expenses	<u>52,403</u>	<u>159,346</u>	<u>98,302</u>
Total Expenses	<u>2,700,626</u>	<u>3,528,907</u>	<u>3,327,201</u>
Operating loss	<u>(1,839,645)</u>	<u>(2,801,216)</u>	<u>(3,923,980)</u>
Non-Operating Income & Expenses			
Contribution from FSMNG	300,000	700,000	850,000
Cost Recovery from WB	5,371,490	1,339,872	1,200,033
Interest Income	90	80	68
Contribution from Australia	27,864	-	-
Miscellaneous Income	89,380	-	-
Interest Expense	<u>(19,111)</u>	<u>(30,124)</u>	<u>(38,590)</u>
Total Non-Operating Income/Expenses	<u>5,769,713</u>	<u>2,009,828</u>	<u>2,011,511</u>
Change in Net Position	<u>3,930,068</u>	<u>(791,388)</u>	<u>(1,912,469)</u>
Net Position at Beginning of Year	<u>25,203,330</u>	<u>25,994,718</u>	<u>27,907,187</u>
Net Position at End of Year	<u>\$ 29,133,398</u>	<u>\$ 25,203,330</u>	<u>\$ 25,994,718</u>

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

Management's Discussion and Analysis, continued

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, 2024, 2023 and 2022:

	2024	2023	2022
Cash flows from operating activities:			
Cash received from customers	1,003,483	310,715	1,379,516
Cash paid to suppliers for goods and services	(1,533,202)	(1,517,050)	(3,187,732)
Cash paid to employees for services	<u>(292,830)</u>	<u>(266,757)</u>	<u>(329,433)</u>
Net cash used in operating activities	<u>(822,549)</u>	<u>(1,473,092)</u>	<u>(2,137,649)</u>
Cash flows from capital and related financing activities:			
Proceeds from long-term debt	643,863	300,000	-
Cash received from interest and other income	90	80	68
World Bank grant	5,071,449	391,236	-
Additions to capital assets	(5,071,449)	(391,236)	-
Repayments of long-term debt	(349,531)	(403,865)	(196,604)
Interest paid on long-term debt	<u>(19,111)</u>	<u>(30,124)</u>	<u>(38,590)</u>
Net cash provided by (used in) capital and related financing activities	<u>275,311</u>	<u>(133,909)</u>	<u>(235,126)</u>
Cash flows from noncapital and related financing activity:			
FSM National Government appropriations	300,000	700,000	850,000
World Bank grant	<u>473,442</u>	<u>891,877</u>	<u>1,306,507</u>
Cash provided by noncapital and related financing activities	<u>773,442</u>	<u>1,591,877</u>	<u>2,156,507</u>
Net change in cash	226,204	(15,124)	(216,268)
Cash at beginning of year	<u>84,289</u>	<u>99,413</u>	<u>315,681</u>
Cash at end of year	<u>310,493</u>	<u>84,289</u>	<u>99,413</u>

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

Management's Discussion and Analysis, continued

4. Borrowings

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, 2024 and 2023 is \$500,000. Refer to note 5 of the financial statements for additional discussions on borrowings.

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.

6. 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 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 cable 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.

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

Management's Discussion and Analysis, continued

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 EMC Consortium Donors have signed a financing agreement in 2023 to grant-fund the EMC project. The Company acts as the State-Owned Entity of the FSM to receive the EMC. World Bank Funds to fund a Fiber to the Home Network in FSM also continues. FSMTCC serves as 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 continue to assess 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, these are not costs that the Company needs to recover from those accessing the network.

7. 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.

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

Management's Discussion and Analysis, continued

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 reflects 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, the current CEO has been recruited in 2022 and the number of FTE for 2019 was four at year end. In 2022, FTE remained at four, in 2023 it is at three, and in 2024 still remained at 3 FTE. All professional services fees and most travel costs associated with ongoing grant projects being implemented by the company are paid for by those grant project funds, including those reported as part of overall company operating expenses.

8. 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, \$233,000, \$233,000, \$233,000, \$233,000, and \$116,500 in 2024, 2023, 2022, 2021, 2020, and 2019, respectively.

9. Marine Maintenance

A marine maintenance contract guarantees the fastest possible start of cable repair if a cable malfunction caused by a cable cut. A standby 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 2024, 2023, 2022,

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

Management's Discussion and Analysis, continued

2021, 2020, and 2019 were \$165,376, \$232,278, \$204,445, \$192,740, \$205,744, and \$157,462, respectively.

10. 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 was \$38,604, \$38,225, \$37,476, \$36,200, \$44,111 and \$12,291 in 2024, 2023, 2022, 2021, 2020, and 2019, respectively.

11. 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 at \$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.

12. 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.

13. 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).

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.

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

Management's Discussion and Analysis, continued

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 2024, \$2,678,197 behind in payments to the Company. During 2021 the Company started litigation against FSMTC before the FSM Supreme Court in Pohnpei. The litigation ended with FSMTCC winning, but FSMTC has appealed all court rulings, the appeal process is still pending. At the year-end 2024, FSMTC owed the Company almost \$2,678,197 but has resumed paying its recent invoices since August 2023.

Management's Discussion and Analysis for the year ended December 31, 2023 is set forth in the Company's report on the audit of financial statements, which is dated April 16, 2025. That Discussion and Analysis explains the major factors impacting the 2023 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) 320-2602.

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

Statements of Net Position

	December 31, <u>2024</u>	<u>2023</u>
Assets		
Current assets:		
Cash	\$ 310,493	\$ 84,289
Receivable from FSMNG	---	173,401
Receivable, other	---	467
Prepaid expenses	<u>---</u>	<u>4,778</u>
Total current assets	310,493	262,935
Receivable from affiliate, net	1,174,454	1,199,245
Capital assets, net	25,557,809	21,472,639
Indefeasible right of use, net	3,718,204	3,904,604
Right-of-use asset, net	<u>166,434</u>	<u>78,254</u>
	<u>\$30,927,394</u>	<u>\$26,917,677</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 476,573	\$ 754,919
Loans payable to FSM Development Bank	643,863	349,531
Lease liabilities, current	<u>82,860</u>	<u>31,964</u>
Total current liabilities	1,203,296	1,136,414
Concession loan payable to FSM National Government	500,000	500,000
Lease liabilities, net of current portion	<u>90,700</u>	<u>77,933</u>
Total liabilities	1,793,996	1,714,347
Commitments and contingencies		
Net position:		
Net investment in capital assets	29,276,013	25,377,243
Unrestricted	(<u>142,615</u>)	(<u>173,913</u>)
Total net position	<u>29,133,398</u>	<u>25,203,330</u>
	<u>\$ 30,927,394</u>	<u>\$26,917,677</u>

See accompanying notes.

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

Statements of Revenues, Expenses, and Changes in Net Position

	Year ended December 31,	
	<u>2024</u>	<u>2023</u>
Operating revenue:		
Capacity charges	\$ <u>860,981</u>	\$ <u>727,691</u>
Operating expenses:		
Depreciation and amortization	1,172,679	1,269,674
Marine maintenance	410,177	517,242
Professional fees	382,691	972,239
Payroll	292,830	266,757
Lease	109,848	65,514
Landing party cost	102,084	117,712
Travel	52,917	9,572
Loan late payment fees	33,543	11,205
Storage cost	29,242	47,972
Repairs and maintenance	29,201	2,390
Communications	15,116	9,434
Office supplies	10,093	6,329
Legal cost	4,907	70,500
Janitorial costs	2,045	2,006
Bank service charges	760	1,015
Miscellaneous	<u>52,493</u>	<u>159,346</u>
Total operating expenses	<u>2,700,626</u>	<u>3,528,907</u>
Operating loss	(<u>1,839,645</u>)	(<u>2,801,216</u>)
Non-operating revenues (expenses):		
World Bank grant	5,371,490	1,339,872
FSM National Government appropriations	300,000	700,000
Other income	117,244	---
Interest expense	(19,111)	(30,124)
Interest income	<u>90</u>	<u>80</u>
Total non-operating revenues, net	<u>5,769,713</u>	<u>2,009,828</u>
Change in net position	3,930,068	(791,388)
Net position at beginning of year	<u>25,203,330</u>	<u>25,994,718</u>
Net position at end of year	<u>\$29,133,398</u>	<u>\$25,203,330</u>

See accompanying notes.

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

Statements of Cash Flows

	Year ended December 31,	
	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,003,483	\$ 310,715
Cash paid to suppliers for goods and services	(1,533,202)	(1,517,050)
Cash paid to employees for services	(292,830)	(266,757)
Net cash used in operating activities	(822,549)	(1,473,092)
Cash flows from capital and related financing activities:		
Proceeds from long-term debt	643,863	300,000
Cash received from interest and other income	90	80
World Bank grant	5,071,449	391,236
Additions to capital assets	(5,071,449)	(391,236)
Repayments of long-term debt	(349,531)	(403,865)
Interest paid on long-term debt	(19,111)	(30,124)
Net cash provided by (used in) capital and related financing activities	<u>275,311</u>	(133,909)
Cash flows from noncapital and related financing activity:		
FSM National Government appropriations	300,000	700,000
World Bank grant	<u>473,442</u>	<u>891,877</u>
Cash provided by noncapital and related financing activities	<u>773,442</u>	<u>1,591,877</u>
Net change in cash	226,204	(15,124)
Cash at beginning of year	<u>84,289</u>	<u>99,413</u>
Cash at end of year	\$ <u>310,493</u>	\$ <u>84,289</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$(1,839,645)	\$(2,801,216)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	1,172,679	1,269,674
Noncash operating lease expense	92,727	9,664
Changes in assets and liabilities:		
Receivable, other	467	(467)
Receivable from affiliate, net	24,791	(416,509)
Prepaid expenses	4,778	---
Accounts payable	(278,346)	<u>465,762</u>
	<u>\$(822,549)</u>	<u>\$(1,473,092)</u>
Supplementary schedule of noncash transactions:		
Right of use asset	\$ 108,543	\$ 87,340
Lease liability	(108,543)	(87,340)
	<u>\$ ---</u>	<u>\$ ---</u>

See accompanying notes.

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

Notes to Financial Statements

Years ended December 31, 2024 and 2023

1. Organization

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.

The Company finalized its incorporation in April 2017 with an initial Board of Directors consisting of three members. The articles of incorporation require a minimum of three members and no more than five members; directors shall be appointed and removed from time to time in the manner 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.

2. Summary of Significant Accounting Policies

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.

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

Notes to Financial Statements, continued

2. 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. At December 31, 2024 and 2023, the Company has no restricted net position.
- *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, 2024 and 2023, the cash balance was \$310,493 and \$84,289, respectively, and the corresponding bank balance was \$310,022 and \$83,818, respectively, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2024 and 2023, 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.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Capital Assets

Depreciable capital assets are stated at cost. The cost of fixed assets, if greater than \$250 with an estimated useful life over one year, 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 as incurred.

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, 2024 and 2023, no conditions have been identified to indicate asset impairment has occurred.

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. At December 31, 2024 and 2023, no significant earned but unused vacation and sick leave are available and accordingly, no related liabilities have been included in the accompanying financial statements.

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.

Leases

The Company determines whether a contract is or contains a lease at the inception of the contract based on all relevant facts and circumstances. A contract is or contains a lease if the contract conveys the right to control the use of identified property or equipment (an identified asset) for a period of time in exchange for consideration. The Company classifies the lease contract as an operating lease.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Leases, continued

Right-of-use (ROU) asset represents the Company's right to use an underlying asset for the lease term and lease liability represents the Company's obligation to make lease payments arising from the lease. ROU asset and lease liability are recognized at commencement date based on the present value of lease payments over the lease term. ROU asset also includes any lease payments made at or before the commencement date and excludes lease incentives.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Subsequently, ROU asset is measured at the amount of remeasured lease liability, adjusted for the remaining balance of any lease incentives received, any cumulative prepaid or accrued rents (i.e., uneven rent payments), any unamortized initial direct costs and any impairment of the ROU asset. Accordingly, the amount of lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liability is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company elected to not recognize lease liabilities and ROU assets for short-term leases, which are leases with initial terms of 12 months or less and for which there is no purchase option that is reasonably certain to be exercised.

Revenue Recognition and Classification

The Company's main source of revenue is capacity charges billed on a monthly basis. During the years ended December 31, 2024 and 2023, substantially all of the capacity charges are recorded from FSM Telecommunications Corporation (FSMTC), a component unit of the FSM National Government.

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 noncapital purposes.

Taxes

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

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This statement provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. The provisions of GASB Statement No. 99 that were effective for the year ended December 31, 2024 are related to:

- Modification of guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures.
- Guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The implementation of the aforementioned provisions of GASB Statement No. 99 during the year ended December 31, 2024 did not have an effect on the accompanying financial statements.

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. The implementation of GASB Statement No. 100 did not have a material effect on the accompanying financial statements.

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.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

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. The implementation of GASB Statement No. 101 did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal year ending December 31, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements—or modifies existing requirements—related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. GASB Statement No. 103 will be effective for fiscal year ending December 31, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for fiscal year ending December 31, 2026.

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

Reclassification

Certain reclassifications were made to the 2023 statement of cash flows which did not result in changes in previously reported net position.

3. Capital Assets

Capital asset activity for the years ended December 31, 2024 and 2023, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance January 1, 2024</u>	<u>Additions and Transfers</u>	<u>Deletions and Transfers</u>	<u>Balance at December 31, 2024</u>
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	<u>32,862</u>	<u>---</u>	<u>---</u>	<u>32,862</u>
		26,744,495	---	---	26,744,495
Less accumulated depreciation		(5,663,092)	(986,279)	---	(6,649,371)
Depreciable capital assets, net		21,081,403	(986,279)	---	20,095,124
Construction in-progress		<u>391,236</u>	<u>5,071,449</u>	<u>---</u>	<u>5,462,685</u>
Total capital assets, net		<u>\$21,472,639</u>	<u>\$4,085,170</u>	<u>\$ ---</u>	<u>\$25,557,809</u>

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

Notes to Financial Statements, continued

3. Capital Assets, continued

	<u>Estimated Useful Lives</u>	<u>Balance January 1, 2023</u>	<u>Additions and Transfers</u>	<u>Deletions and Transfers</u>	<u>Balance at December 31, 2023</u>
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		(4,464,546)	(1,198,546)	---	(5,663,092)
Depreciable capital assets, net		22,279,949	(1,198,546)	---	21,081,403
Construction in-progress		---	391,236	---	391,236
Total capital assets, net		<u>\$22,279,949</u>	<u>\$ (807,310)</u>	<u>\$ ---</u>	<u>\$21,472,639</u>

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 \$24,829,138. As of December 31, 2024, the carrying values of the Yap Spur and Chuuk-Pohnpei Cable amounted to \$7,014,604 and \$11,709,406 respectively. As of December 31, 2023, the carrying values of the Yap Spur and Chuuk-Pohnpei Cable amounted to \$7,374,958 and \$12,298,720 respectively.

At December 31, 2024 and 2023, construction-in-progress is related to ongoing infrastructure projects that are funded by International Development Association (IDA), part of the World Bank Group (see note 6).

4. Indefeasible Right of Use (IRU) Agreement

On February 2, 2018, FSMTC 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. On December 9, 2019, FSMNG assigned 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).

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

Notes to Financial Statements, continued

4. Infeasible Right of Use (IRU) Agreement, continued

As of December 31, 2024 and 2023, the Company's IRU are as follows:

	<u>2024</u>	<u>2023</u>
Cost	\$4,660,000	\$4,660,000
Accumulated amortization	(941,796)	(755,396)
IRU, net	<u>\$3,718,204</u>	<u>\$3,904,604</u>

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.

5. Borrowings

Loans payable to FSM Development Bank

On May 28, 2018, the Company entered into a \$1,000,000 line of credit agreement (LOC) and a \$1,000,000 standby line of credit (SLOC) agreement with the FSM Development Bank (FSMDB), a component unit of FSMNG. These lines are subject to periodic renewal and were extended to mature on August 13, 2025. On September 29, 2025, these were again renewed to mature on September 29, 2026.

On October 1, 2021, the Company drew down \$650,000 from the LOC, 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 outstanding balance of \$242,851 as of December 31, 2023, was settled on September 19, 2024.

On May 15, 2023, the Company drew down \$300,000 from the LOC, with interest rate fixed at 5% per annum. The outstanding balance of \$106,680 as of December 31, 2023, was settled on March 5, 2024.

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

Notes to Financial Statements, continued

5. Borrowings, continued

Loans payable to FSM Development Bank

On August 23, 2024, the Company drew down \$800,000 from the LOC, with interest rate fixed at 5% per annum. At December 31, 2024, the outstanding balance of \$643,863 is due and payable upon maturity of the LOC in August 2025.

No drawdowns against the SLOC are outstanding as at December 31, 2024 and 2023.

Management is of the opinion that the Company is in compliance with financial debt covenants associated with the long-term debts for the years ended December 31, 2024 and 2023.

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, 2024 and 2023 is \$500,000. At December 31, 2024, the Company has not accumulated operating equity in order to trigger repayment commencement and does not anticipate any repayment to occur up until the date of this report.

A summary of changes in long-term debt for the year ended December 31, 2024 and 2023 are as follows:

	Balance January 1, 2024	Increases	Decreases	Balance December, 2024	Due Within One Year
Payable:					
FSMDB	\$ 349,531	\$ 643,863	\$(349,531)	\$ 643,863	\$ 643,863
FSMNG	<u>500,000</u>	<u>---</u>	<u>---</u>	<u>500,000</u>	<u>---</u>
	<u>\$ 849,531</u>	<u>\$ 643,863</u>	<u>\$(349,531)</u>	<u>\$ 1,143,863</u>	<u>\$ 643,863</u>
	Balance January 1, 2023	Increases	Decreases	Balance December, 2023	Due Within One Year
Payable:					
FSMDB	\$ 453,396	\$ 300,000	\$(403,865)	\$ 349,531	\$ 349,531
FSMNG	<u>500,000</u>	<u>---</u>	<u>---</u>	<u>500,000</u>	<u>---</u>
	<u>\$ 953,396</u>	<u>\$ 300,000</u>	<u>\$(403,865)</u>	<u>\$ 849,531</u>	<u>\$ 349,531</u>

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

Notes to Financial Statements, continued

6. Commitments and Contingencies

FSMNG Subsidiary Agreement

On March 6, 2015, the FSMNG and 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. The agreement currently has a closing date of November 30, 2026.

In April 2020, FSMNG entered into a financing agreement (D556-FM) with IDA for Special Drawing Rights (SDR) totaling 22,300,000 for a project to expand access to the internet, promote private sector investment in digital services and establish the critical foundations for digital government services and the digital economy in the FSM. The project consists of four parts, with the Company designated as the implementing entity for Part 1: National Digital Connectivity Infrastructure which has an allocation of SDR 10,700,000, amended to SDR 10,921,000 in July 2022. Concurrently, the Company and IDA entered into a Project Agreement outlining its roles and responsibilities relating to the entitled “Digital Federated States of Micronesia Project”. As of December 31, 2024, a total of USD \$6,711,362 has been expended for the Project of which \$5,371,490 and \$1,339,872 have been reimbursed and recorded as non-operating revenue for the years ended December 31, 2024 and 2023, respectively.

The agreements require the Company to maintain an aggregate of at least \$1,000,000 of equity and shareholder’s loan and unrestricted access to one or more lines of credit facilities in an aggregate amount of at least \$2,000,000 from FSMDB.

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

Notes to Financial Statements, continued

6. Commitments and Contingencies

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 to seek 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 judgment while the appeal is pending. The Court granted the Stay in an order dated October 9, 2023 with the condition that FSMTC pay the judgement amount of approximately \$2.8 million as a bond to be placed into a separate account under the Court's control. Additionally, FSMTC is ordered to pay the Company's monthly invoices since August 2023.

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 \$1,174,454 and \$1,199,245 recorded as of December 31, 2024 and 2023, respectively, is recoverable based on the July 2023 judgment and the cash bond posted by FSMTC.

Leases

The Company is party to several leases which expire from October 2025 through February 2028. The leases may contain renewal options. These leases are classified as operating leases, and the Company has recognized the Right-of-Use (ROU) assets and lease liabilities in accordance with GASB 87, reflecting the present value of future lease payments.

GASB 87 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As the implicit rate is rarely determinable, the Company used the risk-free interest rate with a similar term as the incremental borrowing rate upon commencement of the lease or initial adoption, whichever is later.

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

Notes to Financial Statements, continued

6. Commitments and Contingencies, continued

Leases, continued

	December 31, <u>2024</u>	December 31, <u>2023</u>
Weighted-average remaining lease term	3.22 years	4.49 years
Weighted-average discount rate	3.79%	3.89%

As of December 31, 2024 and 2023, the Company's ROU asset, net of accumulated depreciation and lease liability are as follows:

	<u>2024</u>	<u>2023</u>
ROU asset, gross	\$241,267	\$132,847
Accumulated amortization	(74,833)	(54,593)
ROU asset, net	<u>\$166,434</u>	<u>\$ 78,254</u>
Lease liability	<u>\$173,560</u>	<u>\$109,897</u>

The approximate future minimum annual lease payments payable by the Company as of December 31, 2024 are:

<u>Year ending December 31,</u>	
2025	\$ 87,975
2026	66,600
2027	21,600
2028	<u>5,400</u>
	181,575
Interest	(8,015)
	<u>\$173,560</u>

7. Related Party Transactions

The Company, as a component unit of FSMNG, received appropriations for its operational needs. For the years ended December 31, 2024 and 2023, cash subsidies received from the FSM National Government was \$300,000 and \$700,000, respectively.

The Company recorded capacity revenue from FSMTC of \$860,864 and \$727,224 for the years ended December 31, 2024 and 2023. At December 31, 2024 and 2023, receivables from FSMTC totaled \$2,553,969 and \$2,578,760, net of an allowance of doubtful accounts of \$1,379,515, are presented as receivable from affiliate, net in the accompanying statements of net position as a non-current receivable as the ultimate collectability is contingent upon the ongoing litigation (see note 6).



Shape the future
with confidence

Ernst & Young LLP
P.O. Box 753
Kolonja Pohnpei, FSM 96941

Tel: 691 320 2781/5206
Fax: 691 320 5402
ey.com

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, 2024, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2025.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, non-compliance 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 non-compliance 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 Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

November 21, 2025