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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2018 AND 2017

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

Years Ended December 31, 2018 and 2017
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Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
FSM Telecommunications Cable Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federated States of Micronesia Telecommunications Cable Corporation (the Company), a component unit of the FSM National Government, which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenue, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Deloitte.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FSM Telecommunications Cable Corporation as of December 31, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2019, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 29, 2019

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

Management's Discussion and Analysis
Years Ended December 31, 2018 and 2017

The following discussion and analysis provides an understanding of the Federated States of Micronesia Telecommunications Cable Corporation (the Company) financial performance for the year ended December 31, 2018. This section has been prepared by management and should be read in conjunction with the Company's financial statements and accompanying notes.

Background

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

Financial Highlights

1. Statement of Net Position

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

Comparative Statements of Net Position at December 31, 2018 and 2017 are summarized below:

	2018	2017
Assets:		
Current assets	$ 506,147	$ 12,150
Noncurrent assets	1,180,832	7,670
Total assets	$ 1,686,979	$ 19,820
Liabilities:		
Liabilities	$ 651,142	$ 24,300
Net position:		
Net investment in capital assets	1,180,832	7,670
Unrestricted	(144,995)	(12,150)
Total net position	1,035,837	(4,480)
Total liabilities and net position	$ 1,686,979	$ 19,820

Assets: Total assets of $1,686,979 comprise current assets of $506,147 or 30% and capital assets of $1,180,832 or 70%.

Current assets: Total current assets of $506,147 comprise cash of $503,147 or 99% and prepaid expenses of $3,000 or 1%.

Noncurrent assets: The noncurrent assets of $1,180,832 comprise the Company's capital assets, net of accumulated depreciation.

Liabilities: The Company's liabilities comprise accounts payable of $151,142 or 23% and long-term debt of $500,000 or 77%.

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

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

Below is the comparative summary of Statement of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2018 and 2017.

	2018	2017
Operating expenses	$ (573,680)	$ (103,003)
Non-operating revenues	1,613,997	98,523
Change in net position	1,040,317	(4,480)
Net position at beginning of year	(4,480)	-
Net position at end of year	$ 1,035,837	$ (4,480)

3. Summary Statement of Cash Flows

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

Below are the summary Statements of Cash Flows for the years ended December 31, 2018 and 2017:

	2018	2017
Net cash used in operating activities	$ (443,670)	$ (78,128)
Net cash provided by capital and related financing activities	946,817	78,128
Net change in cash	503,147	(4,480)
Cash at beginning of year	-	-
Cash at end of year	$ 503,147	$ -

4. Long-term debt

On September 17, 2018, the Company entered into an interest-free loan with the FSMNG for $500,000, to support its initial operations and as emergency fund. The loan is uncollateralized and repayment shall commence once the Company has accumulated 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, 2018 is $500,000. For additional information, see note 3 to the financial statements.

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. For additional information on capital assets, see note 6 to the financial statements.

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) that is currently known as the Company, to own and operate FSM's fiber optic cable investments and to provide international and domestic bandwidth to competitive operators on a wholesale basis. With support from the World Bank, the OAE was formally incorporated in May 2017. As a wholesale-only provider, the Company will not participate in downstream retail markets, but rather provide bandwidth to licensed telecommunications operators in FSM who will provide retail services to end users.

The Company has been funded by the World Bank to own and operate, and has been assigned by the FSMNG, FSM's fiber optic submarine cable investments. Currently, it owns sea cables and indefeasible right 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 spur cable from Yap to the main SEA-US cable;
- Chuk-Pohnpei: OAE owns a submarine cable system connecting Chuuk and Pohnpei; and
- Pohnpei-Guam: OAE has secured IRU to use 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 for a fiber optic submarine cable, the East Micronesia Cable (EMC) System that will be owned as a whole by all 3 parties equally. The Company represents the FSMNG for it's share of the EMC system. This cable is due to connect Kosrae and the other island states in 2021 with Pohnpei.

The World Bank is proposing to provide funding to the Company to develop an open access fiber to the home network for the residents of Pohnpei Island, Yap and Kosrae. The Chuuk town of Weno has a fiber cable already (owned by the Company) and the World Bank and the Chuuk State Government are assessing what additional open access telecommunications infrastructure would be of benefit for the residents of Chuuk.

The establishment of the Company is anticipated to result in dramatically decreased bandwidth costs for FSM Telecommunications Corporation (FSMTC) and future licensed service providers, as the capital costs of the network build (submarine cables and fiber to the home) are funded through the World Bank and as such is not a cost 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 for Chuuk is also complete and 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 is nearly complete.

The terms of the collaboration between FSM, Kiribati and Nauru for the supply, installation and operation of the EMC system have also been agreed, pursuant to a Construction and Maintenance Agreement (C&MA) and IRU Deed signed by the responsible 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 and Kiribati and The Republic of Nauru will soon follow in signing the MoMS by the end of June 2019. Draft procurement documents for the supply and installation of the EMC system have been prepared and submitted to the International Development Association and the Asian Development Bank for review.

The Company's role is to manage current and implement new sea cable assets. World Bank grants were given on the condition that the sea cable assets would be managed on a non-for-profit basis with equal, non-discriminatory access for licensed operators 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 a fair amount 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) unit in 2018 was less than 2 FTE. In the meantime, a CEO has been recruited in 2019 and the amount of FTE foreseen for 2019 will be close to four (4) and may increase more in the years to come. Staff costs for 2019 and further will be significantly higher than reported over 2017-2018 and will be more than $200,000.

The reported costs of marine maintenance, in general about $190 per km per year, reflect the costs of the 6 months that the YAP spur was in operation during 2018. The current costs for 2019 are budgeted at approximately $175,000 and will increase to approximately $300,000 when EMC is in operation in 2021.

As of July 1, 2019, the Company will start invoicing its single current customer, FSMTC retroactively per January 1st 2019 limited to the direct out of pocket costs like marine assistance, indefeasible right of use (IRU) costs, credit facility and Guam colocation costs. Those costs were approximately $120,000 for the first 6 months and will increase to $245,000 for the last six months of 2019 bringing the total for the calendar year to $365,000.

Starting 2020, the Company will add its own operational costs to the invoice, including third party outsourcing costs. The current deficit will be covered by a Government subsidy and is sufficient for the remainder of the year.

Future Developments

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

The TRA is developing rules and instruments to enable the liberalization of the sector. These instruments will clearly establish the framework under which a liberalized FSM telecommunications sector will operate and are intended to create a transparent foundation upon which to build a competitive sector. TRA expects to issue its final rules for market liberalization during the third quarter of 2019 after which new market entrants may apply for licenses to operate telecommunications services in FSM. For the Company, as a non 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 sea cable system. At the current moment, the FTTH project is in its inception phase and a clear view on the final roll out and responsibilities is missing.

Financial Management Contact

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

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

Statements of Net Position
December 31, 2018 and 2017

ASSETS	2018	2017
Current Assets:		
Cash	$ 503,147	$ -
Subsidy receivable	-	12,150
Prepaid expenses	3,000	-
Total current assets	506,147	12,150
Depreciable capital assets, net	1,049,901	7,670
Capital asset under construction	130,931	-
	$ 1,686,979	$ 19,820
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable	$ 151,142	$ 24,300
Long-term debt	500,000	-
Total liabilities	651,142	24,300
Commitments		
Net Position:		
Net investment in capital assets	1,180,832	7,670
Unrestricted	(144,995)	(12,150)
Total net position	1,035,837	(4,480)
	$ 1,686,979	$ 19,820

See accompanying notes to financial statements.

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

Statements of Revenues,Expenses, and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
Operating expenses:		
Professional fees	$ 268,564	$ 49,650
Travel	79,433	37,942
Payroll	48,292	12,150
Bank service charges	41,467	100
Loss on lease cancellation	38,400	-
Marine maintenance	29,923	-
Rent	18,270	-
Advertising	9,563	890
Communications	6,222	-
Office supplies	6,192	234
Depreciation	6,168	575
Meal and entertainment	1,652	970
Miscellaneous	19,534	492
Total operating expenses	573,680	103,003
Nonoperating revenues:		
FSM National Government appropriations	1,413,627	86,373
Subsidiary grant	197,295	12,150
Other income	2,400	-
Interest income	675	-
Total nonoperating revenues	1,613,997	98,523
Change in net position	1,040,317	(4,480)
Net position at beginning of year	(4,480)	-
Net position at end of year	$ 1,035,837	$ (4,480)

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash paid to suppliers for goods and services	$ (395,378)	$ (65,978)
Cash payments to employees for services	(48,292)	(12,150)
Net cash used in operating activities	(443,670)	(78,128)
Cash flows from capital and related financing activities:		
Acquisitions of capital assets	(1,179,330)	(8,245)
FSM National Government appropriations	1,413,627	86,373
Proceeds from long-term debt	500,000	-
Subsidiary grant received	209,445	-
Cash received from interest and other income	3,075	-
Net cash provided by capital and related financing activities	946,817	78,128
Net change in cash	503,147	-
Cash at beginning of year	-	-
Cash at end of year	$ 503,147	$ -
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (573,680)	$ (103,003)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	6,168	575
Changes in assets and liabilities:		
Prepaid expenses	(3,000)	-
Accounts payable	126,842	24,300
	$ (443,670)	$ (78,128)

See accompanying notes to financial statements.

(1) Organization

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

(2) Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus,* GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* and GASB Statement No. 61, *The Financial Reporting: Omnibus – an amendment of GASB Statements No. 14 and No. 34,* establish financial reporting standards for governmental entities, which includes the requirement for the Company to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements. These statements also require that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted – net position whose use by the Company is subject to externally imposed stiputations that can be fulfilled by actions of the Company pursuant to those stipulations or the expire by the passage of time. The Company has no restricted net position at December 31, 2018 and 2017.

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

A. Basis of Accounting

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

(2) Summary of Significant Accounting Policies, Continued

B. Cash

For the purposes of statements of net position and of cash flows, cash is defined as cash on hand plus checking and savings accounts. At December 31, 2018, total cash was $503,147 and the corresponding bank balance was $504,147, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of $250,000 was FDIC insured as of December 31, 2018. The Company does not require collateralization of its cash deposits; therefore, deposits levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial risks. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

C. Prepaid Expenses

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

D. Capital Assets

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

Capital asset activity for the years ended December 31, 2018 and 2017, are as follows:

	Estimated Useful Lives	Balance at January 1, 2018	Additions	Deletions	Balance at December 31, 2018
Depreciable capital assets:					
Submarine Cable Landing Station	25 years	$ -	$ 997,485	$ -	$ 997,485
Computers and servers	5 years	-	8,033	-	8,033
Vehicles	5 years	7,670	3,717	-	11,387
Office equipment	5 years	575	6,302	-	6,877
Furniture and fixtures	5 years	-	32,862	-	32,862
		8,245	1,048,399	-	1,056,644
Less accumulated depreciation		(575)	(6,168)	-	(6,743)
Depreciable capital assets, net		7,670	1,042,231	-	1,049,901
Non-depreciable capital assets:					
Capital assets under construction		-	130,931	-	130,931
Total capital assets, net		$ 7,670	$ 1,173,162	$ -	$ 1,180,832

	Estimated Useful Lives	Balance at April 1, 2017	Additions	Deletions	Balance at December 31, 2017
Depreciable capital assets:					
Vehicles	5 years	$ -	$ 7,670	$ -	$ 7,670
Office equipment	5 years	-	575	-	575
		-	8,245	-	8,245
Less accumulated depreciation		-	(575)	-	(575)
Total capital assets, net		$ -	$ 7,670	$ -	$ 7,670

(2) Summary of Significant Accounting Policies, Continued

E. Compensated Absences

It is the Company's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave as of December 31, 2018 and 2017, respectively. Accrued vacation pay is not material to the financial statements.

F. Indefeasible Right of Use (IRU) Agreement

On February 2, 2018, FSM Telecommunication Corporation ("FSMTC"), a related party, and the Company entered into a deed granting the Company a 25-year indefeasible exclusive right of use of fifty percent (50%) of the total available capacity on one fiber pair in the main HANTRU-1 submarine cable. FSMTC will not charge the Company for the conveyances of the IRU granted under the agreement to recover FSMTC's sunk costs in, or to earn a profit on, its investment in the properties and facilities in which it has granted the Company's right of use.

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 considerations 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. The effective date of the agreement is dependent upon closing the agreement by transfer of the custody of the cable system from FSMNG and by finalizing the related final terms with the FSMNG. On March 15, 2019, the cable systems were transferred to the Company (see note 6).

G. Valuation of Long-Lived Assets

The Company using its best estimate based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amounts of its assets might not be recoverable. Impaired assets are reported at the lower of costs or fair value. At December 31, 2018 and 2017, no assets had been written down.

(2) Summary of Significant Accounting Policies, Continued

H. Deferred Outflows of Resources

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

I. Deferred Inflows of Resources

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

J. New Accounting Standards

During the year ended December 31, 2018, the Company implemented the following pronouncements, which did not have material effects on the accompanying financial statements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which replaces the requirements of Statements No. 45*, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57*, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

J. New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

K. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) require management to make estimates and assumptions that affect the reported amounts of net position and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Summary of Significant Accounting Policies, Continued

L. Risk Management

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

(3) Long-Term Debt

On September 17, 2018, the Company entered into an interest-free loan with the FSMNG for $500,000, to support its initial operations and as emergency fund. The loan is uncollateralized and repayment shall commence once the Company has accumulated 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, 2018 is $500,000.

Changes in long-term debt for the year ended December 31, 2018, is as follows:

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Loan payable	$ -	$ 500,000	$ -	$ 500,000	$ -

(4) Commitments

Subsidiary Agreement

On March 6, 2015, 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, 2018 and 2017, the Company recorded subsidiary grant of $197,295 and $12,150, respectively.

(4) Commitments, Continued

The subsidiary agreement also required the Company to maintain an aggregate of at least $1,000,000 of equity and shareholder's loan and one or more lines of credit facilities, in an aggregate amount of at least $2,000,000 from FSM Development Bank, a component unit of FSMNG. Accordingly, on May 28, 2018, the Company secured two lines of credit at $1,000,000 each from FSM Development Bank by paying $40,000 in application fee. The credit is available and can be reapplied for an extension. There was no disbursement from the lines of credit as of December 31, 2018.

Lease

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

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

Year ending December 31,	Minimum Lease Payment Due
2019	$ 18,000
2020	18,000
2021	18,000
2022	18,000
2023	18,000
Thereafter	3,000
	$ 93,000

(5) Related Party Transaction

The Company, as a component unit of FSMNG, received appropriations for its operational needs. For the years ended December 31, 2018 and 2017, cash subsidy received from the FSM National Government were $ 1,413,627 and $86,373, respectively.

(6) Subsequent Events

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.

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

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

The Board of Directors
FSM Telecommunications Cable Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia Telecommunications Cable Corporations (the Company), which comprise the statement of net position as of December 31, 2018, and the related statements of revenues and expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2019.

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.

Deloitte + Touche LLP

June 29, 2019

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

Unresolved Prior Year Findings
December 31, 2018

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