

**FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION**

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

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

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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

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Years Ended September 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Federated States of Micronesia
Telecommunications Corporation:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis-of-a-Matter

As discussed in Note 8 to the financial statements, receivables and payables of \$1.16 million and \$1.48 million, respectively, are currently in dispute with a related party. The ultimate outcome is not yet determinable. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

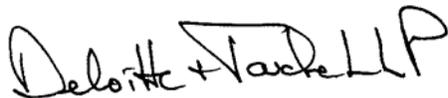
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of the Corporation's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2021 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



February 15, 2021

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

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

Our discussion and analysis of the Federated States of Micronesia Telecommunications Corporation (FSMTC) financial performance provides an overview of the FSMTC financial activities for the fiscal year ended September 30, 2020. This discussion has been prepared by the FSMTC management to further provide an introduction and understanding of the basic financial statements for the year ended September 30, 2020. Please read it in conjunction with the financial statements and the notes thereto, which follow this discussion and analysis. Fiscal year 2019 and 2018 comparative information has been included, where appropriate.

The FSMTC is a public corporation of the Federated States of Micronesia National Government and is the primary provider of telecommunications services throughout the Federated States of Micronesia (FSM) and to points outside of the FSM. The FSMTC also provides Cable TV in the State of Kosrae, and Digital Broadcast Television (DBTV) to both Yap and Chuuk States. Pohnpei, Chuuk and Yap State are now connected to submarine fiber optic cable and soon to be connected is Kosrae. Pohnpei's submarine fiber optic cable was funded by a loan from Rural Utilities Corporation (RUS-USDA), whereas the submarine fiber optic cable for Chuuk, Yap and Kosrae are being funded by grants from World Bank.

The FSMTC is under the governance of an appointed 5-member Board of Directors by the President of the FSM and the Governors of each State, which has oversight over both the FSMTC, Cable TV in Pohnpei, Cable TV in Kosrae and DBTV in Yap & Chuuk. The President/Chief Executive Officer (CEO) is also an ex-officio non-voting member of the Board.

The FSMTC provides telecommunications services which include Plain Old Telephone Services (POTS) to **12,967** active subscribers (Pohnpei – **7,315**, Chuuk – **1,606**, Yap - **2,352** & Kosrae – **1,694**). Other telecommunications services provided are National and International Overseas Calls, Internet Services, Mobile Cellular Services with **23,405** active subscribers (Pohnpei –**9,850**, Chuuk –**8,256**, Yap –**3,831** & Kosrae –**1,468**), Cable Television in the State of Kosrae with **158** active subscribers, DBTV in the State of Chuuk with **114** active subscribers and DBTV in the State of Yap with **53** active subscribers. FSMTC acquired Pohnpei Island Cable Television in June 2019 and as of the end of FY2020 has a total of **163** active subscribers. The total TV subscribers for the whole FSM is **488**.

In the past FSMTC relies on calls made to and from outside of the FSM and calls within the FSM. Now overseas and domestic calls continue to decline and account for **3.62%** of FSMTC's FY2020 operating revenues as compared with **5.04%** of the FSMTC's FY2019 operating revenues. During FY2020, FSMTC realized a **decrease** in Overseas and Domestic Call Revenue of **\$207,295** (or **-26.22%**) as compared to FY2019. With the expansion of the internet in even the most remote or secluded places on earth, communication has become fast, easy, and almost free. More and more smart phones are introduced in the market and accessibilities to unlimited internet, subscribers were able to utilize such technology to place overseas calls thru the use of applications available in the internet in which most of these applications are free. Accessing internet thru mobile infrastructure using 3G, 4G & LTE technologies further makes it more convenient for the subscribers to use various apps to bypass the traditional voice calls. The availability of so many OTTs (Over the Top Applications) in the internet which are continuously being developed to be more efficient is really hurting the overseas toll revenue.

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Internet Services (Wi-Fi, Dial Up, ADSL & FM Domain) account for **41.93%** of FSMTC's FY2020 operating revenues as compared with **38.87%** of FSMTC'S FY 2019 operating revenues. During FY2020, FSMTC realized an **increase** in Internet service revenues of **\$665,653** (or **10.93%**) as compared to FY2019. More and more customers are moving to unlimited internet service by subscribing to ADSL which contributed to the increase in internet revenue. It is expected that data services will continue to dominate the telecom services in terms of revenue contribution. With the cost of bandwidth getting cheaper and cheaper more and more customers are moving to data services. FY2020 is a pandemic year due to Covid19. The coronavirus outbreak has driven many commercial and social activities online and for some the internet has become an ever more crucial link to those they love and the things they need. Most schools have closed and classes and assignments have shifted online creating an increase in internet services.

Mobile services account for **39.62%** of FSMTC's FY2020 operating revenues as compared with **37.33%** of FSMTC'S FY2019 operating revenues. During FY2020 and inspite of the pandemic, FSMTC realized an **increase** in mobile service revenues of **\$534,776** (or **9.14%**) as compared to FY2019. The country started shutting down all the ports causing a decrease in the roaming revenue of about **37.40%** or **-\$766,896**. Mobile phones are now considered as a major personal and business accessory. With the introduction of more voice/data plans, more and more customers are enticed to register to save some money and enjoy the internet and mobile services. In spite of the huge drop in roaming revenue, sales of mobile phones skyrocketed due to FSM government's stimulus packages causing a **54.28%** increase in phone sales or **\$575,193**.

Net inbound carrier (external carriers) revenue accounted for **2.95%** of FSMTC's FY2020 operating revenues as compared with **4.18%** of FSMTC's FY2019 operating revenues. During FY2020, FSMTC realized a **decrease** in net carrier revenues of **\$179,345** (or **-27.38%**) as compared to FY2019. The decrease in settlement revenue can be attributed to upgrades on OTTS (Over the top services) on the INTERNET such as Skype, Facebook Messenger, Viber, Whatsapp, etc.

Statement of Net Position

The statement of net position presents the assets, liabilities, and net position as of the end of the fiscal year. This statement is a point of time financial statement. The purpose of the statement of net position is to present to the readers of the financial statements a fiscal snapshot of the FSMTC. The statement of net position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets minus liabilities).

From the data presented, readers of the statement of net position are able to determine the assets available to continue the operations of the FSMTC. They also are able to determine how much the FSMTC owes vendors and lending institutions. Finally, the statement of net position provides a picture of the net position (assets minus liabilities), which is a useful indicator of whether the financial position of the FSMTC is improving or deteriorating.

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The following summarizes the financial condition and operations of the FSMTC for FY2020, FY2019 and FY2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets:			
Cash and cash equivalents	\$ 3,127,104	\$ 2,295,300	\$ 969,672
TCD's and investments in securities	2,022,241	1,825,714	2,268,944
Receivables and prepayments	2,207,064	1,464,676	1,238,145
Inventory	<u>1,066,362</u>	<u>895,302</u>	<u>971,237</u>
Total current assets	<u>8,422,771</u>	<u>6,480,992</u>	<u>5,447,998</u>
Advance payment to vendor	955,238	1,077,758	711,939
Property, plant and equipment	28,973,453	30,646,368	31,879,267
Other non-current assets	<u>2,324,655</u>	<u>2,486,907</u>	<u>2,649,159</u>
	<u>\$ 40,676,117</u>	<u>\$ 40,692,025</u>	<u>\$ 40,688,363</u>
Liabilities:			
Current liabilities	\$ 3,607,265	\$ 2,906,485	\$ 5,353,577
Non-current liabilities	<u>18,000,001</u>	<u>18,776,805</u>	<u>18,125,719</u>
Total liabilities	<u>21,607,266</u>	<u>21,683,290</u>	<u>23,479,296</u>
Net Position:			
Net investment in capital assets	12,601,147	13,158,597	12,758,061
Unrestricted	<u>6,467,704</u>	<u>5,850,138</u>	<u>4,451,006</u>
Total net position	<u>19,068,851</u>	<u>19,008,735</u>	<u>17,209,067</u>
	<u>\$ 40,676,117</u>	<u>\$ 40,692,025</u>	<u>\$ 40,688,363</u>

The total liabilities of FSMTC barely changed due to the RUS loan break that started June 2019 until May 2021.

The equity of FSMTC was affected by the change in both assets and liabilities and **increased** by net **income** from operations of **\$60,116**.

During FY2020, total cash received from telecommunications services exceeded the amounts paid to vendors and employees for goods and services. This resulted in net cash provided by operating activities of **\$5,237,594** as compared with **\$4,564,354** in FY2019.

The cash and cash equivalents at the end of FY2020 are **\$3,127,104** as compared to **\$2,295,300** at the end of the prior year. The **increase** in cash and cash equivalents can be attributed to RUS loan payment break.

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net assets as presented on the statement of net position are based on the activity presented in the statements of revenues, expenses and changes in net position. The purpose of this statement is to present the revenues received by the FSMTC, both operating and non-operating, and expenses incurred by the FSMTC, operating and non-operating, any other revenues, expenses, gains and losses received or spent by the FSMTC.

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Generally speaking, operating revenues are generated from the provision of telecommunications goods and services to various customers. Operating expenses are those expenses incurred to acquire or produce goods or services provided in return for operating revenues, and to carry out the mission of the FSMTC. Non-operating revenues are revenues received for which goods or services are not provided. For example, investment income is non-operating because it is earned without providing telecommunications goods or services.

The following table summarizes the financial operations of the FSMTC for the years ended September 30, 2020, 2019 and 2018.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 16,113,421	\$ 15,670,199	\$ 14,232,283
Operating expenses	<u>15,559,183</u>	<u>14,812,835</u>	<u>14,959,436</u>
Net operating –loss/income	<u>554,238</u>	<u>857,364</u>	<u>(727,153)</u>
Operating grants	-	-	795,228
Interest income and others	196,246	56,486	179,317
Interest expense	<u>(941,564)</u>	<u>(962,379)</u>	<u>(1,070,109)</u>
Net non-operating –loss/income	<u>(745,318)</u>	<u>(905,893)</u>	<u>(95,564)</u>
Capital grants	251,196	1,848,197	-
Net position beginning of year	<u>19,008,735</u>	<u>17,209,067</u>	<u>18,031,784</u>
Net position, end of year	<u>\$ 19,068,851</u>	<u>\$ 19,008,735</u>	<u>\$ 17,209,067</u>

Total operating revenue in FY2020 **increased** by **\$443,222** (or **2.83%**) compared to FY2019. Although international voice and carrier revenue continues to decrease, data, mobile and roaming revenue are now the new bloodline for the Company. Operating expenses in FY2020 **increased** by **\$746,348** (or **5.04%**) compared to FY2019 operating expenses. This increase can be attributed to cost of Telecommunication Regulation Authority (TRA) spectrum licenses and the additional 1.25% of gross revenue being assessed by TRA as the individualized tax. Included in the increase in cost are salary adjustments, increased cost of maintenance and cost of goods sold for mobile phones.

The FSMTC investments in property, plant and equipment, net of accumulated depreciation, amounted to **\$26,254,131** in FY2020 and **\$29,150,000** in FY2019. This decrease of **\$2,895,869** (or **-9.93%**) is primarily due to depreciation expense. For additional information concerning capital assets, please refer to note 4 to the accompanying financial statements.

FSMTC's notes payable with the US Department of Agriculture (Rural Utilities Services) amounted to **\$18,696,961**, of which, **\$696,960** is classified as the current portion as of September 30, 2020. For additional information concerning the FSMTC's long term debt, please refer to note 6 to the accompanying financial statements.

FSMTC's accounts receivable-others increased by **379%** or **\$1,113,816**. This increase is due to the unpaid bills from FSM Telecommunications Cable Corporation (FSMT Cable Corporation), otherwise known as the Open Access Entity (OAE) for the Federated States of Micronesia. Likewise, FSMTC ceased all payments due OAE since April 2020 because FSMTC had challenged the Indefeasible Right of Use (IRU) deed signed February 2, 2018 for reasons of unfairness and being unconscionable. OAE brought the matter to the regulatory board but based on the materials provided to TRA the dispute was deemed not a regulatory matter that is within the competence of the TRA under the Act and has to be referred for arbitration.

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RUS Loan balance of **\$18,696,961** was reduced by **0.43%** as compared to last fiscal year. This is due to the loan deferral for two years commencing June 2019 to May 2021 where only interest are being paid. As early as September 2018, FSMTC has been requesting RUS for a 5-year loan deferral to help finance upgrades and improvements on telecommunications facilities (i.e., more cell sites for coverages, more hotspots, power support and the rebuilding of the training center). On May 29, 2019, FSMTC received a letter from RUS granting approval of only a two year loan payment break and that FSMTC is to continue to make interest payments on all RUS loans during the deferral period.

Economic Outlook

The coronavirus (COVID-19) outbreak is causing widespread concern and economic hardship for consumers, businesses and communities across the globe. The situation is changing quickly with widespread impacts. The ongoing shift to remote work will drive demand for networking infrastructure and connectivity. Cancelled domestic and global business travel results in a sharp increase in mobile communications.

While the FSM does not enjoy the same level of visitor arrivals as Palau or any other island nation in the Pacific, the majority of the COVID-19 impact will also be felt in the private sector, namely in the transportation and tourism sectors. The hotel and restaurant industries are projected to fall by 46 percent in fiscal year 2020 and then an additional 75 percent in fiscal year 2021, reflecting the absence of tourists and minimal interstate visitors. Similarly, the transportation sector, which includes shipping, port services, aviation, and airport ground handling, is projected to decline by 27 percent in fiscal year 2020 and an additional 14 percent in fiscal year 2021. Notably, the total projected loss to the FSM economy will be the most severe decline in the FSM economy since the start of the amended Compact period in 2004. Ultimately, the FSM is expected to experience a 6.9 percent decline in GDP and a loss of 1,841 jobs, reflecting an 11 percent reduction of employment levels in the FSM compared to fiscal year 2019.

Optimistically, given the FSM's strong fiscal position at the outset of the COVID-19 pandemic, the application of targeted internal and external assistance, including Federal assistance, to bolster health sector investments, improve resiliency in the health system, provide budgetary resources to offset revenue losses during the pandemic, and to extend direct support to affected individuals and businesses, will be sufficient to offset much of the projected threat to the FSM economy and to its fiscal position going forward.

According to the updated IMF forecasts from 14th April 2020, due to the outbreak of the COVID-19, GDP growth is expected to fall to -0.4% towards the end 2020 and pick up to 1.4% in 2021, subject to the post-pandemic global economic recovery.

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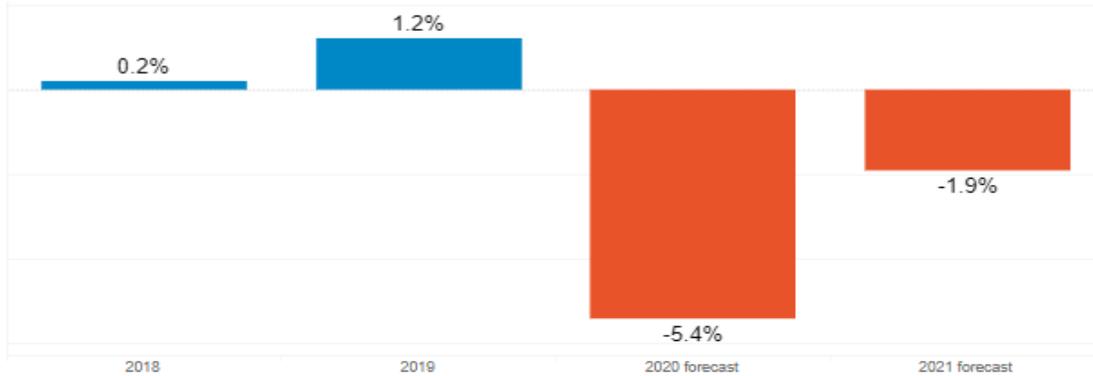
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Years Ended September 30, 2020 and 2019

Economic indicators for the Federated States of Micronesia

GDP growth Inflation Current account balance

GDP Growth Rate: Federated States of Micronesia
(% per year)



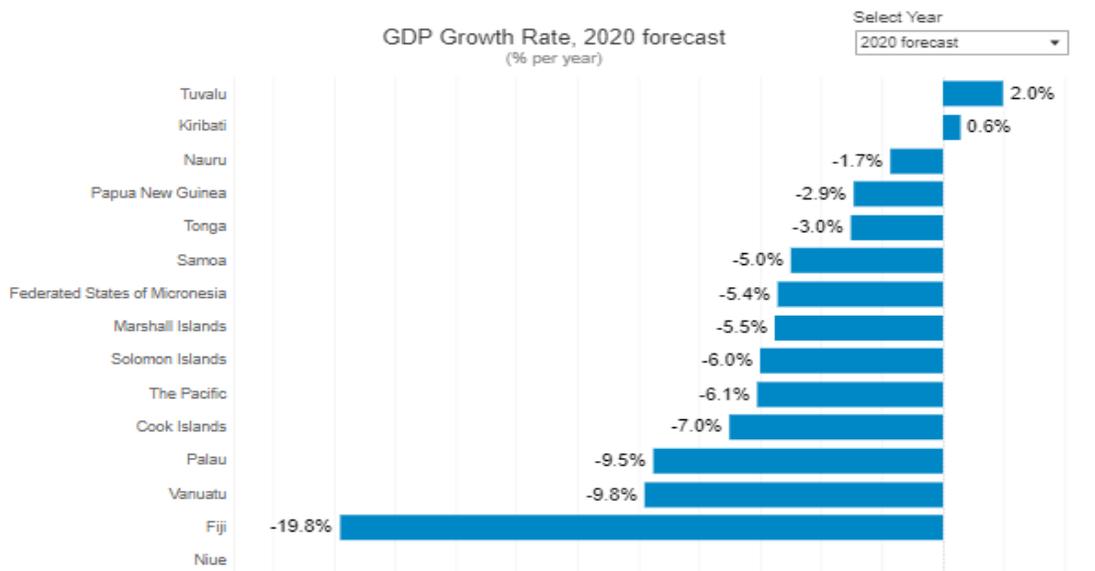
Source: Asian Development Bank. Asian Development Outlook (ADO) 2020 Update (September 2020)

Comparative economic forecasts

The latest available economic data for the FSM compared to countries in the Pacific.

GDP growth Inflation Current account balance

GDP Growth Rate, 2020 forecast
(% per year)



Source: Asian Development Bank. Asian Development Outlook (ADO) 2020 Update (September 2020)

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Submarine fiber optic cable landed and connected Yap State in July 2019 and also in the State of Chuuk in May 2020. With this huge broadband for the islands, telecommunications services will continue to be better, faster and cheaper. FSMTC is committed to bring reliable and cost-effective communication services to every household in the FSM. Most of the telecommunications services provided in other more developed countries are available in the Federated States of Micronesia. These modern telecommunications services should go a long way in assisting the Federated States of Micronesia in its efforts to attract investors and to further develop our island nation. FSMTC will continue to seek improved technologies to better serve its customers and at the same time bring significant operating savings.

Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in FSMTC'S report on the audit of financial statements, which is dated December 20, 2019. That Discussion and Analysis explains the major factors impacting the 2020 financial statements and can be viewed at the Office of the FSM National Public Auditor's website at www.fsmopa.fm.

Financial Contact

This financial report is designed to provide all interested users with a general overview of the Federated States of Micronesia Telecommunications Corporation. If you have questions about this report or need additional financial information, please contact Mr. Fredy Perman, President/CEO or Rodelio A. Pulmano, Senior Vice President/CFO at email addresses fredy.perman@fsmtc.fm and rodelio.pulmano@fsmtc.fm, respectively, or please write to us at P.O. Box 1210, Kolonia, Pohnpei FM 96941.

**FEDERATED STATES OF MICRONESIA
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Statements of Net Position
September 30, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 3,127,104	\$ 2,295,300
Time certificates of deposit	279,044	278,763
Investment in securities	1,743,197	1,546,951
Accounts receivable, net of an allowance for doubtful accounts of \$879,417 and \$866,435 in 2020 and 2019, respectively	466,013	528,645
Receivables from international carriers	184,496	385,574
Advances to employees	2,154	2,758
Inventory	1,066,362	895,302
Accrued interest and other accrued earnings	146,765	253,879
Other receivables, net of an allowance for doubtful accounts of \$154,312 and \$149,195 in 2020 and 2019, respectively, and prepaid expenses	1,407,636	293,820
Total current assets	8,422,771	6,480,992
Advance payment to vendor	955,238	1,077,758
Capital assets:		
Nondepreciable capital assets	2,719,322	1,496,368
Capital assets, net of accumulated depreciation	26,254,131	29,150,000
Indefeasible right of use, net	2,324,655	2,486,907
	\$ 40,676,117	\$ 40,692,025
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 696,960	\$ -
Current maturities of contract liability	-	1,197,873
Accounts payable, trade	79,594	61,542
Unearned income	206,530	221,107
Customer deposits	1,593,720	443,761
Accrued leave payable	152,732	147,602
Other accrued liabilities	877,729	834,600
Total current liabilities	3,607,265	2,906,485
Long-term debt, net of current portion	18,000,001	18,776,805
Total liabilities	21,607,266	21,683,290
Commitments and contingencies		
Net position:		
Net investment in capital assets	12,601,147	13,158,597
Unrestricted	6,467,704	5,850,138
Total net position	19,068,851	19,008,735
	\$ 40,676,117	\$ 40,692,025

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA
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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating revenues:		
Internet	\$ 6,756,906	\$ 6,091,253
Mobile charges	6,384,848	5,850,072
Net access	2,055,595	2,041,357
Overseas tolls	583,247	790,542
External carriers	475,599	654,944
Miscellaneous	212,259	441,539
ICTV Pohnpei cable charges	63,994	1,308
ICTV Chuuk cable charges	53,071	73,072
ICTV Kosrae cable charges	37,657	41,850
ICTV Yap cable charges	23,528	43,054
Recovery of bad debts	3,643	45,860
Discounts	(536,926)	(404,652)
Total operating revenues	16,113,421	15,670,199
Operating expenses:		
Corporate operations	2,883,191	2,523,066
Internet expense	2,613,405	2,836,858
Consumer operations	2,084,920	1,780,271
Cable and wire	1,960,789	1,783,317
Wireless telephone	1,630,529	1,645,377
Plant operations	1,457,690	1,878,712
General support	1,290,079	1,149,936
Terminal equipment	535,908	330,907
Central office	435,941	371,701
ICTV expense	379,084	293,775
Earth station	287,647	218,915
Total operating expenses	15,559,183	14,812,835
Income from operations	554,238	857,364
Nonoperating revenues (expenses):		
Interest expense	(941,564)	(962,379)
Net change in fair value of investments	196,246	56,486
Total nonoperating expenses, net	(745,318)	(905,893)
Loss before capital contributions	(191,080)	(48,529)
Capital contributions	251,196	1,848,197
Change in net position	60,116	1,799,668
Net position at beginning of year	19,008,735	17,209,067
Net position at end of year	\$ 19,068,851	\$ 19,008,735

See accompanying notes to financial statements.

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

	2020	2019
Cash flows from operating activities:		
Cash received from subscribers, long distance carriers and other customers	\$ 17,619,627	\$ 15,634,237
Cash paid to suppliers for goods and services	(8,838,198)	(7,768,123)
Cash paid to employees	(3,543,835)	(3,301,760)
Net cash provided by operating activities	5,237,594	4,564,354
Cash flows from capital and related financing activities:		
Capital contributions received from FSM National Government	251,196	1,848,197
Additions to property, plant and equipment	(2,437,424)	(2,828,573)
Repayments of RUS long-term debt	(79,844)	(1,387,084)
Interest paid on RUS long-term debt	(941,845)	(962,663)
Principal paid on equipment contract	(1,197,873)	(408,603)
Net cash used for capital and related financing activities	(4,405,790)	(3,738,726)
Cash flows from investing activities:		
Net purchases, sales and maturities of investments	-	500,000
Net change in cash and cash equivalents	831,804	1,325,628
Cash and cash equivalents at beginning of year	2,295,300	969,672
Cash and cash equivalents at end of year	\$ 3,127,104	\$ 2,295,300
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 554,238	\$ 857,364
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	4,272,591	4,223,724
(Increase) decrease in assets:		
Accounts receivable	62,632	(42,385)
Receivables from international carriers	201,078	(63,845)
Advances to employees	604	2,781
Inventory	(171,060)	75,935
Accrued interest and other accrued earnings	107,114	(55,193)
Other receivables and prepaid expenses	(1,113,816)	(556,208)
Advance payment to vendor	122,520	122,500
Increase (decrease) in liabilities:		
Accounts payable, trade	18,052	(205,432)
Unearned income	(14,577)	131,608
Accrued leave payable	5,130	(10,024)
Customer deposits	1,149,959	(6,147)
Other accrued liabilities	43,129	89,676
Net cash provided by operating activities	\$ 5,237,594	\$ 4,564,354

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies

Nature of Operations

The Federated States of Micronesia (FSM) Telecommunications Corporation (the Corporation), a component unit of the FSM National Government, is a local exchange carrier (LEC) and an international exchange carrier providing local telephone service, cellular service, internet access, long distance telecommunication services, and digital wireless TV. The Corporation serves commercial and residential customers in the four States that comprise the FSM - Chuuk, Kosrae, Pohnpei and Yap.

Organization

The Corporation was established as a public corporation under the laws of the Federated States of Micronesia, the purpose of which is to provide telecommunications services, except radio and television broadcasting, throughout the FSM and to points outside the FSM and began its operations in October 1983. The Corporation is governed by a five member Board of Directors. One member is appointed by the President of the FSM with the advice and consent of the FSM Congress. The Governor of each State of the FSM appoints one member of the Board with the advice and consent of the respective State legislatures. The Chief Executive Officer of the Corporation serves as an ex officio member of the Board but has no right to vote.

Basis of Accounting

The Corporation maintains a chart of accounts in accordance with the Uniform System of Accounts for telephone companies of the United States Federal Communications Commission's Rules, and in conformity with accounting principles generally accepted in the United States of America (GAAP). Additionally, the Corporation utilizes the accrual basis of accounting.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, establish standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted - net position whose use by the Corporation is subject to externally imposed stipulations that can be fulfilled by actions of the Corporation pursuant to those stipulations or that expire by the passage of time. The Corporation has no restricted net position at September 30, 2020 and 2019.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the Corporation. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified in the statements of net position. Certificate of deposit investment accounts established and set aside for future capital expenditure projects are classified within investment in securities.

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

Accounts Receivable

Accounts receivable are due from businesses and individuals located within the FSM and are interest free and uncollateralized. Receivables from international carriers are due from entities within the United States and Japan.

Accounts receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection effects are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventory

Materials and supplies are valued at cost, which approximates market, using the first-in-first-out (FIFO) method. Resaleable and non-resaleable inventory supplies are 79% and 21% of the total inventory as of September 30, 2020, respectively, and 70% and 30% as of September 30, 2019, respectively.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The Corporation capitalizes buildings, land improvements and equipment that have a cost of \$200 or more and an estimated useful life of at least five years. The cost of maintenance and repairs is charged to operating expenses. Depreciation is calculated on the straight-line method over the estimated useful lives of the respective assets.

Plant under Construction

Plant under construction represents the accumulated costs of unfinished capital projects. These costs are capitalized as property, plant and equipment upon completion of each project.

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(1) Summary of Significant Accounting Policies, Continued

Indefeasible Right of Use

The Corporation has capitalized the cost of acquisition of the exclusive right to use a specified amount of fiber capacity for a period of time, which is amortized over the length of the term of the capacity agreement on the straight line method.

Valuation of Long-Lived Assets

The Corporation, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At September 30, 2020 and 2019, no assets had been written down.

Deferred Outflows of Resources

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

Compensated Absences

It is the Corporation's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay is accrued when earned.

Unearned Income

Unearned income includes amounts received for telecommunications services prior to the end of the fiscal year but related to the subsequent accounting period.

Deferred Inflows of Resources

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

Taxes

Corporate profits are not subject to income tax in the FSM. Instead, the FSM National Government imposes a gross revenue tax (GRT) of 3% on gross revenues earned. The Corporation is subject to GRT; however, the Corporation is specifically exempt from any other taxes in accordance with its enabling legislation for the years ended September 30, 2020 and 2019. During the years ended September 30, 2020 and 2019, the Corporation paid GRT in the amount of \$330,639 and \$313,174, respectively. During the year ended September 30, 2020, the Telecommunication Regulation Authority (TRA) has assessed the Corporation a fee for annual spectrum licenses and additional 1.25% based on latest gross revenue available as the individualized tax. The Corporation paid in the amount of \$267,644.

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(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition and Classification

Billings for local service revenue and basic internet service are rendered monthly in advance. Advance billings are recorded as a liability and are subsequently transferred to income in the period earned. Prepaid card revenues are recorded when the cards are sold.

Long distance network services revenues and usage-sensitive internet service revenues are based on a per-minute charge paid by the end user or other telecommunications service providers. These revenues are billed in arrears, but are recognized in the month that service is provided.

The Corporation records all revenues generated from and expenses incurred in providing telecommunications services as operating revenue and expense, including local service, long distance, internet, and cellular services.

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.

New Accounting Standards

During the year ended September 30, 2020, the Corporation implemented the following pronouncements:

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

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

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

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(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019, with the Corporation electing to early adopt this pronouncements. Interest cost of \$105,392 and \$55,914 related to plant under construction was recorded as an expense by the Corporation during the fiscal years ended September 30, 2020 and 2019, respectively.

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

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

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

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(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending *September 30, 2022*.

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

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

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

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

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(2) Investment - Island Cable Television

On December 8, 1998, the Corporation acquired a 50% ownership in Island Cable Television – Pohnpei (ICTV) for \$450,000. The Corporation recorded this investment under the equity method of accounting. Goodwill of \$383,062 resulting from the purchase was being amortized over a period of fifteen (15) years. The remaining goodwill balance of \$325,603 as of September 30, 2002 was written-off. On June 21, 2019, the Corporation acquired the remaining 50% ownership in Island Cable Television - Pohnpei for \$100,001, which was allocated to the Corporation's respective assets and are included in the accompanying financial statements as the finalization of ICTV is in process.

(3) Deposits and Investments

The deposit and investment policies of the Corporation are governed by the Board of Directors. As such, the Board of Directors is authorized to delegate certain responsibilities to third parties. Investment managers have discretion to purchase, sell, or hold the specific securities to meet the objectives set forth in the investment policy.

Generally, the Corporation can invest in bonds and other indebtedness of the U.S. and in preferred or common stock of any corporation created or existing under the laws of the U.S. or any U.S. state, territory, or commonwealth. Additionally, a maximum of 20% of the total portfolio may be invested in non-U.S. equities.

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in the Corporation's name. The Corporation does not have a deposit policy for custodial credit risk.

As of September 30, 2020 and 2019, the carrying amount of the Corporation's total cash and cash equivalents and time certificates of deposit was \$3,406,148 and \$2,574,063, respectively, and the corresponding bank balances were \$3,415,430 and \$2,602,432, respectively, all of which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, bank deposits in the amount of \$375,193 and \$373,352, respectively, were FDIC insured. The Corporation does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Corporation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

B. Investments

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the Corporation's investment policy.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Corporation will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of September 30, 2020 and 2019, the Corporation's investments are held in the name of the Corporation and are administered by investment managers subject to Securities Investor Protection Corporation insurance in accordance with the Corporation's investment policy.

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(3) Deposits and Investments, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Corporation's investment policy states that all fixed income securities shall have a Moody's, Standard & Poor's and/or Fitch's credit rating of no less than "BBB."

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Corporation. As of September 30, 2020 and 2019, there were no investments in any one issuer that exceeded 5% of total investments.

B. Investments, Continued

As of September 30, 2020 and 2019, investments at fair value are as follows:

	<u>2020</u>	<u>2019</u>
Fixed income:		
U.S. Treasury obligations	\$ 167,913	\$ 206,236
Corporate notes	<u>256,163</u>	<u>229,717</u>
	424,076	435,953
Other investments:		
Domestic and international equities	1,261,404	1,092,604
Money market funds	<u>57,717</u>	<u>18,394</u>
	<u>\$ 1,743,197</u>	<u>\$ 1,546,951</u>

As of September 30, 2020, the Corporation's investments in debt securities were as follows:

	Moody's Credit Rating	Less Than 1	Investment Maturities (In Years)			Fair Value
			1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	Aaa/P-1	\$ 38,399	\$ 85,625	\$ 43,889	\$ -	\$ 167,913
Corporate notes	A1/P-1	15,025	19,755	21,138	-	55,918
Corporate notes	A2/P-1	-	36,126	21,860	-	57,986
Corporate notes	A3-/P-1	-	44,986	19,160	-	64,146
Corporate notes	BAA1/P-2	-	35,053	-	-	35,053
Corporate notes	BAA2/P-2-3	-	<u>29,128</u>	<u>13,932</u>	-	<u>43,060</u>
		<u>\$ 53,424</u>	<u>\$ 250,673</u>	<u>\$ 119,979</u>	<u>\$ -</u>	<u>\$ 424,076</u>

As of September 30, 2019, the Corporation's investments in debt securities were as follows:

	Moody's Credit Rating	Less Than 1	Investment Maturities (In Years)			Fair Value
			1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	Aaa/P-1	\$ 48,288	\$ 75,302	\$ 82,646	\$ -	\$ 206,236
Corporate notes	A1/P-1	20,050	34,709	-	-	54,759
Corporate notes	A2/P-1	-	41,177	19,089	-	60,266
Corporate notes	A3-/P-1	10,112	20,705	10,452	-	41,269
Corporate notes	BAA1/P-2	-	30,882	10,914	-	41,796
Corporate notes	BAA2/P-2-3	-	11,210	10,330	-	21,540
Corporate notes	BAA3/P-3	-	<u>10,087</u>	-	-	<u>10,087</u>
		<u>\$ 78,450</u>	<u>\$ 224,072</u>	<u>\$ 133,431</u>	<u>\$ -</u>	<u>\$ 435,953</u>

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(3) Deposits and Investments, Continued

B. Investments, Continued

The Corporation categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Corporation has the following recurring fair value measurements as of September 30, 2020 and 2019:

	<u>Fair Value Measurements Using</u>				
	September 30, <u>2020</u>	Quoted Prices In Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>	
		Investments by fair value level:			
		Fixed income:			
U.S. Treasury obligations	\$ 167,913	\$ -	\$ 167,913	\$ -	
Corporate notes	<u>256,163</u>	<u>-</u>	<u>256,163</u>	<u>-</u>	
Total fixed income	<u>424,076</u>	<u>-</u>	<u>424,076</u>	<u>-</u>	
Equity securities:					
U.S. equities	914,065	914,065	-	-	
Non U.S. equities	<u>347,339</u>	<u>347,339</u>	<u>-</u>	<u>-</u>	
Total equity securities	<u>1,261,404</u>	<u>1,261,404</u>	<u>-</u>	<u>-</u>	
Total investments by fair value level	1,685,480	<u>\$ 1,685,480</u>	<u>\$ 424,076</u>	<u>\$ -</u>	
Investments measured at amortized cost:					
Money market funds	<u>57,717</u>				
	<u>\$ 1,743,197</u>				

	<u>Fair Value Measurements Using</u>				
	September 30, <u>2019</u>	Quoted Prices In Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>	
		Investments by fair value level:			
		Fixed income:			
U.S. Treasury obligations	\$ 206,236	\$ -	\$ 206,236	\$ -	
Corporate notes	<u>229,717</u>	<u>-</u>	<u>229,717</u>	<u>-</u>	
Total fixed income	<u>435,953</u>	<u>-</u>	<u>435,953</u>	<u>-</u>	
Equity securities:					
U.S. equities	744,145	744,145	-	-	
Non U.S. equities	<u>348,429</u>	<u>348,429</u>	<u>-</u>	<u>-</u>	
Total equity securities	<u>1,092,604</u>	<u>1,092,604</u>	<u>-</u>	<u>-</u>	
Total investments by fair value level	1,528,557	<u>\$ 1,528,557</u>	<u>\$ 435,953</u>	<u>\$ -</u>	
Investments measured at amortized cost:					
Money market funds	<u>18,394</u>				
	<u>\$ 1,546,951</u>				

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

Notes to Financial Statements
September 30, 2020 and 2019

(5) Indefeasible Right of Use (IRU)

In 2009, the Corporation entered into an IRU Capital Lease agreement with a third party for the exclusive use of eight wave lengths of fiber capacity of the two fibers of the Kwajalein Cable System (KCS) which runs between Guam and Kwajalein and which is known as the "HANTRU1 System." Under the terms of the agreement, the Corporation made certain payments of \$3,656,301. The initial term of the agreement is for a period of ten years commencing on the date the Corporation is initially granted access, and which term is automatically renewable for a further 10-year period and an additional 5-year period thereafter. Prior to the tenth and twentieth anniversary dates, the Corporation has the option to terminate this agreement; however, such is subject to prior approval of the Rural Utilities Services (RUS) of the U.S. Department of Agriculture. The Corporation's policy is to amortize the right of use over the 25-year period.

In 2018, the Corporation entered into another IRU Capital Lease agreement with a third party for the exclusive use of capacity of the fiber cable system which runs between Guam and mainland of United States of America. Under the terms of the agreement, the Corporation made certain payments of \$240,000. The initial term of the agreement is for a period of fifteen years commencing on the date the Corporation is initially granted access, and which term is renewable on a month-to-month basis thereafter. The Corporation's policy is to amortize the right of use over the 15-year period.

As of September 30, 2020 and 2019, accumulated amortization expense of \$1,571,646 and \$1,409,394, respectively, has been recorded.

(6) Long-term Debt

Long-term debt at September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Loans payable to RUS, with a 35 year term, interest at 5% per annum, collateralized by the Corporation's specific ground leases and essentially all other assets. Pursuant to loan agreements dated August 1, 1990 and March 12, 2009, the Corporation is required to make monthly payments of both principal and interest to RUS. The loans were originally in the amounts of \$32,000,000 and \$12,136,000 and the proceeds were used for capital related purposes.	\$ 18,696,961	\$ 18,776,805
Less current portion of long term debt	<u>(696,960)</u>	<u>-</u>
Long term debt, net of current portion	\$ <u>18,000,001</u>	\$ <u>18,776,805</u>

On May 29, 2019, the Corporation was granted a two-year principal deferral period from June 01, 2019 to May 31, 2021. The deferred principal on the loans will be re-amortized such that all outstanding RUS debt will be due and payable in full by the maturity dates. The Corporation must continue to make interest payments during the deferral period.

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Notes to Financial Statements
September 30, 2020 and 2019

(6) Long-term Debt, Continued

Future minimum principal and interest payments on notes payable for subsequent years ending September 30, are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 696,960	\$ 917,130	\$ 1,614,090
2022	2,160,812	839,265	3,000,077
2023	2,269,814	730,263	3,000,077
2024	2,385,568	614,509	3,000,077
2025	2,505,041	495,036	3,000,077
2026 - 2030	7,409,821	996,911	8,406,732
2031 - 2032	<u>1,268,945</u>	<u>44,509</u>	<u>1,313,454</u>
	<u>\$ 18,696,961</u>	<u>\$ 4,637,623</u>	<u>\$ 23,334,584</u>

These notes are subject to certain coverage ratio requirements. The Corporation is not in compliance with its ratio requirements as of September 30, 2020. Management is of the opinion that the lender is aware of this matter and will not call the debt. Therefore, the debt is classified in accordance with expected future payouts.

A summary of changes in long-term debt for the years ended September 30, 2020 and 2019 are as follows:

	Balance October 1, 2019	<u>Increases</u>	<u>Decreases</u>	Balance September 30, 2020	Due Within One Year
Notes payable:					
Rural Utilities Service	\$ <u>18,776,805</u>	\$ _____	\$ <u>(79,844)</u>	\$ <u>18,696,961</u>	\$ <u>696,960</u>
	Balance October 1, 2018	<u>Increases</u>	<u>Decreases</u>	Balance September 30, 2019	Due Within One Year
Notes payable:					
Rural Utilities Service	\$ <u>20,163,889</u>	\$ _____	\$ <u>(1,387,084)</u>	\$ <u>18,776,805</u>	\$ _____

(7) Commitments and Contingencies

Leases

The Corporation has various operating leases as of September 30, 2020. Three are for land sites for state offices beginning in 1988 for Pohnpei and Yap and 1990 for Kosrae. There is one land site lease for the southeast remote switch on Pohnpei with a 15-year term beginning in 1994. The Corporation has also entered into various circuit leases expiring through 2030.

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

<u>Year ending September 30,</u>	<u>Total</u>
2021	\$ 106,143
2022	108,387
2023	111,143
2024	121,556
2025	121,556
2026 - 2030	472,428
2031 - 2033	<u>161,642</u>
	<u>\$ 1,202,855</u>

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(7) Commitments and Contingencies, Continued

Operation, Management and Repair (OM&R) Agreement

In 2009, the Corporation, along with the Marshall Islands National Telecommunications Authority (MINTA), entered into an OM&R agreement with a third party for the purpose of operating, maintaining, and repairing the “Micronesian Addition”, which is a subset of the HANTRU1 System. The term of the agreement coincides with the term of the IRU Capital Lease agreement wherein the Corporation and MINTA are required to each make monthly payments of \$6,400 less certain service credits, and which are subject to inflationary adjustments and an annual incremental increase of 3%.

Self-Insurance

The Corporation purchases insurance to cover risks associated with its buildings and equipment (\$10,099,944 of coverage) and vehicles (up to \$1,000,000 of coverage per vehicle per incident). Additionally, the Corporation purchases fidelity insurance coverage for selected employees (total coverage of \$950,000) and workmen’s compensation insurance (coverage of up to \$100,000 per employee). The Corporation also purchases general liability insurance in connection with operations (up to \$1,000,000 per occurrence). There have been no significant reductions in coverage, and there have been no settlements in excess of insurance coverage for the past three years. The Corporation does not purchase insurance for its Outside Plant. As most of these items are underground, the Corporation is of the opinion that losses from such, if any, will be minimal. Therefore, the Corporation is self-insured for Outside Plant and all other risks not encompassed in the forgoing. Management is of the opinion that no material losses have resulted from this practice.

Construction and Other Commitments

The Corporation has entered into various contracts for construction and expansion of its facilities and services. Approximately \$9,778,213 is outstanding under these contracts as of September 30, 2020.

The Corporation has entered into a \$4 million contract with Acclinks Communications, Inc. for a Third Generation (3G) Mobile Network Partnership Agreement signed on September 12, 2013. As of September 30, 2020 and 2019, the Corporation recognized \$0 and \$1,197,873, respectively, as a contract liability that will be paid through revenue sharing as agreed per payment terms. The Corporation pays 10% of total 3G revenue and 5% of 2G revenue to Acclinks as the interest and technical support fee for 5 years starting from the commencement of the 3G services.

A summary of changes in other long-term liabilities for the years ended September 30, 2020 and 2019 is as follows:

	Balance <u>October 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>September 30, 2020</u>	Due Within <u>One Year</u>
Contract liability	\$ <u>1,197,873</u>	\$ _____	\$ <u>(1,197,873)</u>	\$ _____	\$ _____
	Balance <u>October 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>September 30, 2019</u>	Due Within <u>One Year</u>
Contract liability	\$ <u>1,606,476</u>	\$ _____	\$ <u>(408,603)</u>	\$ <u>1,197,873</u>	\$ <u>1,197,873</u>

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2020 and 2019

(7) Commitments and Contingencies, Continued

Construction and Other Commitments, Continued

The Corporation has entered into various contract service agreements to improve internet capacity in the States of Chuuk, Kosrae and Yap.

Future minimum payments payable by the Corporation under these contracts are as follows:

<u>Year ending September 30,</u>	<u>Total</u>
2021	\$ 2,104,356
2022	1,383,979
2023	1,331,989
2024	1,329,456
2025	1,329,456
2026 - 2030	6,607,305
2031 - 2033	<u>3,928,405</u>
	<u>\$ 18,014,946</u>

External Carriers

External carriers located in other countries are subject to oversight policies from their respective regulatory agencies. Currently, U.S. regulatory agencies are contemplating a reduction of the tariff rate used by the Corporation for settlement with certain U.S. carriers. The ultimate outcome of this matter and the related impact on the Corporation cannot be predicted at this time.

Litigation

In the ordinary course of business, claims have been filed against the Corporation. Management does not believe that the plaintiffs will prevail and the ultimate outcome is currently not determinable. Therefore, no provision has been recorded in the accompanying financial statements for losses, if any, that may result.

(8) Related Party Transactions

The Corporation's services are provided to its affiliates at the same rates as are charged to third parties. The Corporation is a component unit of the FSM National Government. As of September 30, 2020 and 2019, receivables from the FSM National Government amounted to \$48,821 and \$65,096, respectively.

During the years ended September 30, 2020 and 2019, the Corporation received capital contributions and operating subsidies of \$251,196 and \$1,848,197, respectively, from the FSM National Government for the purpose of upgrading network services in all four states.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2020 and 2019

(8) Related Party Transactions, Continued

Cable System in Chuuk and Yap State

On March 15, 2019, FSM National Government transferred to FSM Telecommunications Cable Corporation (FSMT Cable Corporation), a component unit of the FSM National Government, the custody and maintenance of new submarine cable systems constructed under the financial agreement namely Yap Spur and Chuuk-Pohnpei Cable. The Corporation pays monthly charges for the services provided by FSMT Cable Corporation based on actual costs incurred. During the years ended September 30, 2020 and 2019, the Corporation recognized expenses of \$714,952 and \$210,795, respectively, for services provided by FSMT Cable Corporation. Starting April 2020, the Corporation ceased all payments due to FSMT Cable Corporation because the Corporation challenged the IRU deed. As of September 30, 2020, unpaid charges for services provided amounted to \$326,140, which are currently in dispute. Such is presented as other accrued liabilities in the statements of net position.

Based on the IRU between the Corporation and FSMT Cable Corporation, half of the fiber will be given to FSMT Cable Corporation in exchange for paying half of the loan associated with the construction of submarine fiber that runs from Pohnpei to the HANTRU1 branching unit or the RUS Loan B. During the year ended September 30, 2020, 50% of the total monthly amortization plus maintenance costs were billed to FSMT Cable Corporation in the amount of \$1,157,643.

As of September 30, 2020, unpaid various charges of \$1,157,643 are currently in dispute between the Corporation and FSMT Cable Corporation. The related charges were recorded as other receivables and other deferred charges, which are presented as other receivables and customer deposits in the statements of net position. There is currently no pending legal action related to this matter. No provision has been recorded in the accompanying financial statements during the year ended September 30, 2020 for the ultimate resolution of this matter.

(9) Retirement Plan

The Corporation's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees received from the FSM Social Security System. The Plan is a contributory plan in which the Corporation contributes 10 percent of the participant's annual salary, and the participant contributes 3 or more percent from his or her annual salary. Participation is optional. The Corporation's President/CEO and Senior Vice President/CFO are the designated Plan administrator. Employer contributions to the Plan during the years ended September 30, 2020, 2019 and 2018 were \$238,895, \$220,735, and \$224,352, respectively, and employee contributions were \$137,530, \$141,963 and \$138,811, respectively. Management is of the opinion that the plan does not represent an asset or liability of the Corporation. At September 30, 2020 and 2019, plan assets were \$4,635,509 and \$4,985,095, respectively.

**FEDERATED STATES OF MICRONESIA
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Schedule of Operating Expenses
Years Ended September 30, 2020 and 2019

	2020	2019
Depreciation and amortization	\$ 4,272,591	\$ 4,223,724
Salaries and wages	3,573,572	3,305,089
Circuit lease	2,123,765	2,346,792
Cost of sales	1,236,295	877,556
Repairs and maintenance	1,145,220	968,756
Utilities	1,117,312	1,171,738
Taxes	650,553	387,613
Rental expenses	216,314	204,743
Contractual services	168,418	155,249
Petroleum and lubricants	147,495	162,756
Professional fees	131,291	61,317
Travel	118,282	257,580
Freight	107,172	71,723
Communications	81,638	92,967
Advertising	75,675	65,118
ICTV affiliated	65,883	63,491
Supplies	65,599	41,601
Insurance	52,405	55,338
Publications and printing	23,279	26,604
Land lease	20,888	21,746
Representation	14,587	22,177
Training	10,921	72,663
Miscellaneous	140,028	156,494
	\$ 15,559,183	\$ 14,812,835

See accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

U.S. Department of Agriculture

Rural Utilities Service Loan Funding:

Approved Purposes	Loan Proceeds Approved as of September 30, 2020	Loan Proceeds Received During FY 2020	Total Disbursements on Contracts During FY 2020
F/A 1	\$ 411,584	\$ -	\$ -
Work Orders	422,905	-	-
CT. A-4	90,688	-	-
CT. A-5	1,191,004	-	-
CT. A-6	650,676	-	-
CT. A-7	3,108,615	-	-
CT. A-8	3,500,000	-	-
CT. A-9	1,108,149	-	-
CT. A-10	636,505	-	-
CT. A-11	1,193,317	-	-
CT. A-12	1,422,800	-	-
CT. A-13	19,440,795	-	-
CT. A-14X	1,988,002	-	-
CT. B-15	8,206,857	-	-
CT. B-16E	274,500	-	-
CT. A-1E	275,625	-	-
CT. A-2E	4,008,263	-	-
CT. A-3A	304,109	-	-
Operating Equipment	387,263	-	-
Pre-Loan	55,000	-	-
IRU Capital Lease	3,656,301	-	-
	<u>\$ 52,332,958</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Independent Auditors' Report.

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

Board of Directors
Federated States of Micronesia
Telecommunications 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 Corporation (the Corporation), which comprise the statement of net position as of September 30, 2020, 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 February 15, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

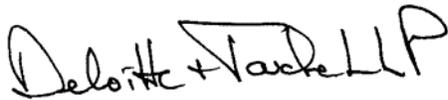
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

February 15, 2021

**FEDERATED STATES OF MICRONESIA
TELECOMMUNICATIONS CORPORATION**

Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2020

There are no prior year findings or unresolved questioned costs of Federated States of Micronesia Telecommunications Corporation as of September 30, 2020.