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

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FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

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YEARS ENDED DECEMBER 31, 2021 AND 2020

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

Years Ended December 31, 2021 and 2020
Table of Contents

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# INDEPENDENT AUDITOR'S REPORT

Board of Directors
FSM Telecommunications Cable Corporation:

## Report on the Audit of the Financial Statements

### Opinion

We have audited the 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, 2021 and 2020, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the FSM Telecommunications Cable Corporation as of December 31, 2021 and 2020, 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.

### Basis for Opinion

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

### Emphasis-of-Matter

#### Restatement

As discussed in Note 6 to the financial statements, the 2020 financial statements have been restated to correct an error.

#### Asset Realization

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

Our opinion is not modified with respect to these matters.

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## Responsibilities of Management for the Financial Statements

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

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

## Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Deloitte.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-10 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 December 5, 2022, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Company's internal control over financial reporting and compliance.

Deloitte & Touche LLP

December 5, 2022

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

Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

The following discussion and analysis provide an understanding of the Federated States of Micronesia Telecommunications Cable Corporation (the Company) financial performance for the year ended December 31, 2021. This section has been prepared by management and should be read in conjunction with the Company's financial statements and accompanying notes.

## Background

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

## Financial Highlights

1. Statement of Net Position

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

Comparative Statements of Net Position at December 31, 2021:

| ASSETS | 2021 | 2020 (As Restated) | 2019 |
|---|---|---|---|
| Current assets: | | | |
| Cash | $ 315,681 | $ 103,883 | $ 579,134 |
| Accounts receivables | 1,379,516 | 596,780 | - |
| Subsidy receivable | 223,117 | 57,854 | 230,179 |
| Prepaid expenses | 97,894 | 87,894 | 87,894 |
| Total current assets | 2,016,208 | 846,411 | 897,207 |
| Depreciable capital assets, net | 23,300,054 | 24,391,981 | 25,449,811 |
| Indefeasible right of use | 4,162,082 | 4,348,482 | 4,534,882 |
| | $ 29,478,344 | $ 29,586,874 | $ 30,881,900 |
| LIABILITIES AND NET POSITION | | | |
| Current Liabilities: | | | |
| Accounts payable | $ 421,157 | $ 182,226 | $ 127,046 |
| Retention payable | - | - | 34,557 |
| Current portion of long-term debt | 271,115 | - | - |
| Total current liabilities | 692,272 | 182,226 | 161,603 |
| Long-term debt | 878,885 | 500,000 | 500,000 |
| Total liabilities | 1,571,157 | 682,226 | 661,603 |
| Net Position: | | | |
| Net investment in capital assets | 27,462,136 | 28,740,463 | 29,984,693 |
| Unrestricted | 445,051 | 164,185 | 235,604 |
| Total net position | 27,907,187 | 28,904,648 | 30,220,297 |
| | $ 29,478,344 | $ 29,586,874 | $ 30,881,900 |

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:

| | 2021 | 2020 (As Restated) | 2019 |
|---|---|---|---|
| Operating revenue: | | | |
| Capacity charges | $ 782,736 | $ 782,744 | $ 469,117 |
| Operating expenses: | | | |
| Depreciation and amortization | 1,278,327 | 1,275,227 | 873,752 |
| Professional fees | 949,900 | 699,655 | 262,252 |
| Payroll | 303,911 | 285,207 | 189,736 |
| Support costs - Network Operations Centre | 233,000 | 244,460 | 126,580 |
| Marine maintenance | 192,740 | 205,744 | 157,462 |
| Legal Cost | 125,660 | - | - |
| Landing party cost | 54,436 | 5,198 | 59,713 |
| Storage cost | 31,269 | 36,200 | 44,111 |
| Rent | 31,105 | 20,940 | 20,219 |
| Office supplies | 19,700 | 9,304 | 9,399 |
| Repairs and Maintenance | 12,120 | 575 | 25,295 |
| Training | 9,000 | - | - |
| Communications | 7,111 | 7,825 | 6,364 |
| Bank service charges | 2,590 | 23,889 | 21,709 |
| Travel | 687 | 3,327 | 45,431 |
| Advertising | - | 29,616 | 68,783 |
| Meal and entertainment | - | 198 | 2,591 |
| Shipping cost | - | - | 11,356 |
| Miscellaneous | 24,252 | 14,647 | 16,750 |
| Total operating expenses | 3,275,808 | 2,862,012 | 1,941,503 |
| Operating loss | (2,493,072) | (2,079,268) | (1,472,386) |
| Nonoperating revenues (expenses): | | | |
| World Bank grant | 994,156 | 731,415 | 351,499 |
| FSM National Government appropriations | 500,000 | - | 500,000 |
| Other income | 1,330 | 987 | - |
| Interest income | 125 | 220 | 1,009 |
| Total nonoperating revenues | 1,495,611 | 732,622 | 852,508 |
| Capital contributions from FSM National Government | - | - | 28,980,828 |
| Capital contributions from World Bank | - | 30,997 | 692,579 |
| Total capital contributions | - | 30,997 | 29,673,407 |
| Change in net position | (997,461) | (1,315,649) | 29,053,529 |
| Net position at beginning of year | 28,904,648 | 30,220,297 | 1,166,768 |
| Net position at end of year | $ 27,907,187 | $ 28,904,648 | $ 30,220,297 |

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:

| | 2021 | 2020 (As Restated) | 2019 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Cash received from customers | $ - | $ 185,964 | $ 469,117 |
| Cash paid to suppliers for goods and services | (1,505,889) | (1,280,955) | (987,005) |
| Cash payments to employees for services | (262,661) | (285,207) | (189,736) |
| Net cash used in operating activities | (1,768,550) | (1,380,198) | (707,624) |
| Cash flows from capital and related financing activities: | | | |
| Acquisitions of capital assets | - | (30,997) | (662,228) |
| FSM National Government appropriations | 500,000 | - | 500,000 |
| Proceeds from long-term debt | 650,000 | - | - |
| Capital contributions received from World Bank | - | 30,997 | 563,051 |
| Cash received from interest and other income | 1,455 | 1,207 | 1,009 |
| Net cash provided by capital and related financing activities | 1,151,455 | 1,207 | 401,832 |
| Cash flows from noncapital and related financing activities: | | | |
| Nonoperating subsidy from World Bank | 828,893 | 903,740 | 381,779 |
| Net change in cash | 211,798 | (475,251) | 75,987 |
| Cash at beginning of year | 103,883 | 579,134 | 503,147 |
| Cash at end of year | $ 315,681 | $ 103,883 | $ 579,134 |

4. Long-term debt

On September 17, 2018, the Company entered into an interest-free loan with the FSMNG for $500,000, to support its initial operations and as an emergency fund. The loan is uncollateralized and repayment shall commence once the Company has accumulated an equity of $1,000,000 and will be paid out of operational funds. Subject to this clause, repayment was initially set on October 1, 2023 after a five-year grace period and such grace period is subject to review of the parties. After repayment date is confirmed, the loan amount and frequency will be set and the loan is payable over a minimum period of seven years or due on October 1, 2030. The balance outstanding at December 31, 2021, 2020 and 2019 is $500,000.

On October 1, 2021, the Company has drawn down $650,000 from one of its lines of credit from FSMDB, with 5 % interest rate. On August 5, 2022, FSMDB restricted the repayment terms with maturity date on February 25, 2024. See note 3 to the financial statements for additional information.

5. Capital Assets

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

Market Introduction

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

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

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

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

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

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

## Achievements of the Company

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

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

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

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

The professional services fees and travel costs included as operating expenses in the statements of revenues, expenses, and changes in net position reflect the part of the expense that is attributable to the Company. The reported operating expense reflect the start-up phase of the Company. Relative high costs for professional fees and travel and low payroll costs. In the meantime, a CEO was recruited in 2019 and the amount of total staff full-time equivalent (FTE) for 2020 and 2019 was four at year end. FTE for 2021 was at 15 at year end. The CEO's salary is partly paid from World Bank grant funds.

Operations & Maintenance costs

## Telin IRU

Telin IRU O&M, the annual costs for the IRU are $233,000 (5% of the IRU price of $4,660,000) and are stipulated in the IRU. The Telin IRU has been assigned to the Company in May 2019. Starting July 2019, the Company has taken over the quarterly payments to Telin from the FSMNG. The Company has paid Telin $233,000, $233,000 and $116,500 in 2021, 2020 and 2019, respectively.

Marine Maintenance

A marine maintenance contract guarantees the fastest possible start of cable repair if a cable malfunctions caused by a cable cut. A stand by repair ship leased by the South Pacific Marine Maintenance Association (SPMMA) will sail out within 4 hours after calling in a request for assistance. Although the daily price of the ship is significantly reduced compared to the commercial prices on the shipping spot market a "quick repair" will take at least 3 weeks and in general costs approximately USD 1 million. Full year costs for Yap and Chuuk-Pohnpei in 2021, 2020 and 2019 are $192,740, $205,744 and $157,462, respectively.

Storage costs of Cable spare parts.

It is common practice that spare parts are procured during the commissioning period of the cable system. The spare parts need to be stored in a safe environment in Guam. The Company has a spare parts sharing agreement with BSCC, the Palau Open Access Entity that fulfills a similar role in Palau as the Company in FSM. The Company's share of the storage costs is $31,269, $36,200 and $44,111 in 2021, 2020 and 2019, respectively.

Credit facility at FSM Development Bank

The Company does not have an emergency repair fund but has two credit facilities at the FSM Development Bank with a total value of $2,000,000. The costs of the facilities are 1% the facility per annum. As of December 31, 2021, the Company has a drawdown of $650,000 from the line of credit, which matures on February 25, 2024.

Backhaul and cross connect in Guam

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

Future Developments

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

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

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

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

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

## Financial Management Contact

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

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

Statements of Net Position
December 31, 2021 and 2020

| ASSETS | 2021 | 2020 (As Restated) |
|---|---|---|
| Current assets: | | |
| Cash | $ 315,681 | $ 103,883 |
| Accounts receivable | 1,379,516 | 596,780 |
| Subsidy receivable | 223,117 | 57,854 |
| Prepaid expenses | 97,894 | 87,894 |
| Total current assets | 2,016,208 | 846,411 |
| Depreciable capital assets, net | 23,300,054 | 24,391,981 |
| Indefeasible right of use | 4,162,082 | 4,348,482 |
| | $ 29,478,344 | $ 29,586,874 |
| **LIABILITIES AND NET POSITION** | | |
| Current Liabilities: | | |
| Accounts payable | $ 421,157 | $ 182,226 |
| Current portion of long-term debt | 271,115 | - |
| Total current liabilities | 692,272 | 182,226 |
| Long-term debt | 878,885 | 500,000 |
| Total liabilities | 1,571,157 | 682,226 |
| Commitments and contingencies | | |
| Net position: | | |
| Net investment in capital assets | 27,462,136 | 28,740,463 |
| Unrestricted | 445,051 | 164,185 |
| Total net position | 27,907,187 | 28,904,648 |
| | $ 29,478,344 | $ 29,586,874 |

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, 2021 and 2020

| | 2021 | 2020 (As Restated) |
|---|---|---|
| Operating revenue | | |
| Capacity charges | $ 782,736 | $ 782,744 |
| Operating expenses: | | |
| Depreciation and amortization | 1,278,327 | 1,275,227 |
| Professional fees | 949,900 | 699,655 |
| Payroll | 303,911 | 285,207 |
| Support costs - Network Operations Centre | 233,000 | 244,460 |
| Marine maintenance | 192,740 | 205,744 |
| Legal cost | 125,660 | - |
| Landing party cost | 54,436 | 5,198 |
| Storage cost | 31,269 | 36,200 |
| Rent | 31,105 | 20,940 |
| Office supplies | 19,700 | 9,304 |
| Repairs and maintenance | 12,120 | 575 |
| Training | 9,000 | - |
| Communications | 7,111 | 7,825 |
| Bank service charges | 2,590 | 23,889 |
| Travel | 687 | 3,327 |
| Advertising | - | 29,616 |
| Meals and entertainment | - | 198 |
| Miscellaneous | 24,252 | 14,647 |
| Total operating expenses | 3,275,808 | 2,862,012 |
| Operating loss | (2,493,072) | (2,079,268) |
| Nonoperating revenues: | | |
| World Bank grant | 994,156 | 731,415 |
| FSM National Government appropriations | 500,000 | - |
| Other income | 1,330 | 987 |
| Interest income | 125 | 220 |
| Total nonoperating revenues | 1,495,611 | 732,622 |
| Capital contributions from World Bank | - | 30,997 |
| Total capital contributions | - | 30,997 |
| Change in net position | (997,461) | (1,315,649) |
| Net position at beginning of year | 28,904,648 | 30,220,297 |
| Net position at end of year | $ 27,907,187 | $ 28,904,648 |

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, 2021 and 2020

| | 2021 | 2020 (As Restated) |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from customers | $ - | $ 185,964 |
| Cash paid to suppliers for goods and services | (1,505,889) | (1,280,955) |
| Cash payments to employees for services | (262,661) | (285,207) |
| Net cash used in operating activities | (1,768,550) | (1,380,198) |
| Cash flows from capital and related financing activities: | | |
| Acquisitions of capital assets | - | (30,997) |
| FSM National Government appropriations | 500,000 | - |
| Proceeds from long-term debt | 650,000 | - |
| Capital contributions received from World Bank | - | 30,997 |
| Cash received from interest and other income | 1,455 | 1,207 |
| Net cash provided by capital and related financing activities | 1,151,455 | 1,207 |
| Cash flows from noncapital and related financing activities: | | |
| Nonoperating subsidy from World Bank | 828,893 | 903,740 |
| Net change in cash | 211,798 | (475,251) |
| Cash at beginning of year | 103,883 | 579,134 |
| Cash at end of year | $ 315,681 | $ 103,883 |
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | $ (2,493,072) | $ (2,079,268) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 1,278,327 | 1,275,227 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (782,736) | (596,780) |
| Prepaid expenses | (10,000) | - |
| Accounts payable | 238,931 | 55,180 |
| Retention payable | - | (34,557) |
| | $ (1,768,550) | $ (1,380,198) |
| Supplementary schedule of noncash transactions: | | |
| Professional fees and other expenses | $ 379,907 | $ 182,226 |
| Salaries | 41,250 | - |
| Accounts payable | (421,157) | (182,226) |
| World Bank grant | (223,117) | (44,839) |
| Subsidy receivable | 223,117 | 44,839 |
| | $ - | $ - |

See accompanying notes to financial statements.

## (1) Organization

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

## (2) Summary of Significant Accounting Policies

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

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

- Restricted – net position whose use by the Company is subject to externally imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or expiration by the passage of time. The Company has no restricted net position at December 31, 2021 and 2020.

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

### A. Basis of Accounting

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

## (2) Summary of Significant Accounting Policies, Continued

### B. Cash

For the purposes of statements of net position and of cash flows, cash is defined as cash on hand and cash in checking and savings accounts. At December 31, 2021 and 2020, total cash was $315,681 and $103,883, respectively, and the corresponding bank balance of $323,551 and $107,929, respectively, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of $254,860 and $107,929 were FDIC insured as of December 31, 2021 and 2020, respectively. The Company does not require collateralization of its cash deposits; therefore, deposits levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial risks. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

### C. Prepaid Expenses

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

### D. Capital Assets

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

Capital asset activity for the years ended December 31, 2021 and 2020, are as follows:

| | Estimated Useful Lives | Balance at January 1, 2021 | Additions and Transfers | Deletions and Transfers | Balance at December 31, 2021 |
|---|---|---|---|---|---|
| Depreciable capital assets: | | | | | |
| Submarine Cable Landing Station | 25 years | $ 26,606,077 | $ - | $ - | $ 26,606,077 |
| Computers and servers | 5 years | 11,777 | - | - | 11,777 |
| Vehicles | 5 years | 11,387 | - | - | 11,387 |
| Office equipment | 5 years | 82,392 | - | - | 82,392 |
| Furniture and fixtures | 5 years | 32,862 | - | - | 32,862 |
| | | 26,744,495 | - | - | 26,744,495 |
| Less accumulated depreciation | | (2,352,514) | (1,091,927) | - | (3,444,441) |
| Depreciable capital assets, net | | $ 24,391,981 | $ (1,091,927) | $ - | $ 23,300,054 |

## (2) Summary of Significant Accounting Policies, Continued

### D. Capital Assets, Continued

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

### 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, 2021 and 2020. Accrued vacation pay is not material to the financial statements.

### F. Indefeasible Right of Use (IRU) Agreement

On February 2, 2018, FSM Telecommunication Corporation (“FSMTC”), a related party, and the Company entered into a deed granting the Company a 25-year indefeasible exclusive right of use of fifty percent (50%) of the total available capacity on one fiber pair in the main HANTRU-1 submarine cable. FSMTC will not charge the Company for the conveyances of the IRU granted under the agreement to recover FSMTC’s sunk costs in, or to earn a profit on, its investment in the properties and facilities in which it has granted the Company’s right of use. In December 9, 2019, FSMNG assigns to the Company all of its rights, titles and interests, and obligations, under the IRU Agreement, and transferred the IRU in the amount of $4,660,000 with accumulated depreciation of $113,883. The IRU shall continue in effect until the West Subsystem is decommissioned. In certain conditions, either party may initiate a termination of IRU, otherwise it is for the life of the Cable system (25 years). Accumulated amortization of $384,035 and $311,518 has been recorded as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the IRU’s carrying amount is $4,162,082 and $4,348,482, respectively.

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

(2) Summary of Significant Accounting Policies, Continued

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

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

G. Valuation of Long-Lived Assets

The Company using its best estimate based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amounts of its assets might not be recoverable. At December 31, 2021 and 2020, no assets had been written down.

H. Deferred Outflows of Resources

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

I. Deferred Inflows of Resources

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

J. New Accounting Standards

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements except for GASB Statement No. 90, which was implemented during the year ended December 31, 2019.

(2) Summary of Significant Accounting Policies, Continued

J. New Accounting Standards, Continued

During the year ended December 31, 2021, the Company implemented the following pronouncements:

- GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period.

- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended December 31, 2022.

The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending December 31, 2022.

In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending December 31, 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. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending December 31, 2022.

(2) Summary of Significant Accounting Policies, Continued

J. New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending December 31, 2023.

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending December 31, 2023.

In June 2020, GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending December 31, 2022.

In October 2021, GASB issued Statement No. 98, The Annual Comprehensive Financial Report. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 98 will be effective for fiscal year ending December 31, 2022.

K. Management Estimates

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

## (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 an independent third party for the risks of loss to which it is exposed. The Company is substantially self-insured for all other risks. Settled claims have not exceeded commercial coverage in any of the past two years.

## (3) Long-Term Debt

On September 17, 2018, the Company entered into a $500,000 interest-free loan with the FSMNG to support its initial operations and to be used as an emergency fund. The loan is uncollateralized and repayment shall commence once the Company has accumulated equity of $1,000,000 and the loan will be paid out of operational funds. Subject to this clause, repayment was initially set on October 1, 2023 after a five-year grace period and such grace period is subject to review of the parties. After repayment date is confirmed, the loan amount and frequency will be set and the loan is payable over a minimum period of seven years or due on October 1, 2030. The balance outstanding at December 31, 2021 and 2020 is $500,000.

On May 28, 2018, the Company secured two lines of credit at $1,000,000 each from FSM Development Bank (FSMDB), a component unit of FSMNG, which can be reapplied for extensions. The two lines of credit were extended and matures on January 1, 2023. On October 1, 2021, the Company has drawn down $650,000 from one of its lines of credit from FSMDB, with interest rate of 5%. On August 5, 2022, FSMDB restructured the repayment terms with required monthly payments of $29,399 starting March 25, 2022 to February 25, 2024 (See note 4 and 7).

Future minimum debt payments as of December 31, 2021, are as follows:

| | |
|---|---|
| 2022 | $ 271,115 |
| 2023 | 340,575 |
| 2024 | 38,310 |
| Thereafter | 500,000 |
| | $ 1,150,000 |

Management is of the opinion that the Company is in compliance with financial debt covenants associated with the long-term debts for the year ended December 31, 2021 and 2020.

## (4) Commitments and contingencies

### Subsidiary Agreement

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

## (4) Commitments and contingencies, Continued

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, 2021, the Company recorded nonoperating grant revenues and capital contributions from World Bank of $994,156 and $0, respectively. For the year ended December 31, 2020, the Company recorded nonoperating grant revenues and capital contributions from World Bank of $731,415 and $30,997, respectively.

The subsidiary agreement also requires the Company to maintain an aggregate of at least $1,000,000 of equity and shareholder's loan and one or more lines of credit facilities, in an aggregate amount of at least $2,000,000 from FSMDB. Accordingly, on May 28, 2018, the Company secured two lines of credit at $1,000,000 each from the FSM Development Bank, which can be reapplied for extensions. Disbursements from the lines of credit as of December 31, 2021 and 2020 amounted $650,000 and $0, respectively (see note 3 and 7).

### Lease

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

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

| Year ending December 31, | Minimum Lease Payment Due |
|---|---|
| 2022 | $ 18,000 |
| 2023 | 18,000 |
| 2024 | 3,000 |
| | $ 39,000 |

### Uncertainty

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

## (5) Related Party Transaction

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

## (5) Related Party Transaction, Continued

The Company, as a component unit of FSMNG, received appropriations for its operational needs. For the years ended December 31, 2021 and 2020, cash subsidies received from the FSM National Government were $500,000 and $0, respectively.

The Company had capacity revenue transactions with FSMTC of $782,736 and $782,744 for the year ended December 31, 2021 and 2020, respectively.

## (6) Restatement

Subsequent to the issuance of the Company's 2020 financial statements, the Company determined that prior year accounts and subsidy receivables, revenues and expenses and related payables were misstated. As a result of this determination, the 2020 financial statements have been restated from the amounts previously reported as follows:

| | As Previously Reported | As Restated |
|---|---|---|
| Assets: | | |
| Accounts Receivable | 683,239 | 596,780 |
| Subsidy receivable | 44,839 | 57,854 |
| Total current assets | 919,855 | 846,411 |
| Total assets | 29,660,318 | 29,586,874 |
| Current liabilities: | | |
| Accounts payable | 89,419 | 182,226 |
| Total current liabilities | 89,419 | 182,226 |
| Net position: | | |
| Unrestricted | 330,436 | 164,185 |
| Total net position | 29,070,899 | 28,904,648 |
| Total liabilities and net position | 29,660,318 | 29,586,874 |
| Operating revenue: | | |
| Capacity charges | 847,972 | 782,744 |
| Operating expenses: | | |
| Professional fees | 606,848 | 699,655 |
| Total operating expenses | 2,769,205 | 2,862,012 |
| Operating loss | (1,921,233) | (2,079,268) |
| Nonoperating revenues: | | |
| World Bank grant | 739,631 | 731,415 |
| Total nonoperating revenues | 740,838 | 732,622 |
| Change in net position | (1,149,398) | (1,315,649) |
| Net position at the end of the year | 29,070,899 | 28,904,648 |

## (7) Subsequent Events

Management has considered subsequent events through December 5, 2022, upon which the financial statements were available to be issued. Except for the matters discussed below, there were no other material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2021.

On October 25, 2022, the court ruled that the Company's ownership of the IRU is legally valid and enforceable. However, the court denies summary judgment on the exact amounts the sole customer owes the Company. Subsequent to December 31, 2021, the Company has not collected a substantial portion of its billings to its sole customer. Uncertainties have arisen, which may have a negative impact on the Company's financial and operational results, especially in the fair value of its submarine cable system. Such potential impacts are unknown at this time.

On August 5, 2022, FSMDB restructured the repayment terms of the $650,000 drawdown as of December 31, 2021, with required monthly payments of $29,399 starting March 25, 2022 to February 25, 2024 (See note 3).

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

The Board of Directors
FSM Telecommunications Cable Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia Telecommunications Cable Corporation (the Company), which comprise the statement of net position as of December 31, 2021, 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 December 5, 2022. Our report included emphasis-of-matter paragraphs regarding a restatement to correct an error and an uncertainty.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing 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 any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Deloitte.

## Compliance and Other Matters

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

## Purpose of this Report

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

Deloitte & Touche LLP

December 5, 2022

## Unresolved Prior Year Findings
December 31, 2021

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