Financial Statements and
Required Supplementary Information

Federated States of Micronesia Telecommunications Regulation Authority

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

Year Ended September 30, 2022
with Report of Independent Auditors

Building a better working world

Federated States of Micronesia
Telecommunication Regulation Authority
(Component Unit of the Federated States of Micronesia National Government)

Financial Statements and Required Supplementary Information

Year Ended September 30, 2022

Contents

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Report of Independent Auditors

Board of Directors
Federated States of Micronesia Telecommunication Regulation Authority:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Federated States of Micronesia (FSM) Telecommunication Regulation Authority (the Authority), a component unit of the FSM National Government, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2022, and the changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority'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 Authority's internal control. Accordingly, no such opinion is expressed.

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 5 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2023, on our consideration of the Authority'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 Authority'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 Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

November 10, 2023

Management's Discussion and Analysis

Year Ended September 30, 2022

The following Discussion and Analysis of the Telecommunication Regulation Authority (TRA) is to provide an introduction and understanding of the basic financial statements of TRA for the fiscal year ended September 30, 2022. This discussion has been prepared by management and should be read in conjunction with the financial statements.

This annual report consists of two parts:

1. Management Discussion and Analysis
2. Basic Financial Statements

The basic financial statements include the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows. For TRA activities, these statements tell how these services were financed during fiscal year 2022.

TRA was created under Public Law 18-52 in 2014 and its primary responsibilities are:

1. To establish the Rules & Regulations and promote the fair competition among the operators.
2. To evaluate and issue the telecommunication operator's licenses.
3. To coordinate and regulate the Interconnections among the operators.
4. Responsible for Spectrum Management and issue spectrum licenses.
5. To monitor the Quality Service by the operators.

During fiscal year 2018, the financial activities of TRA were part of the Department of Transportation, Communications & Infrastructure and accounting of services was done at the Department of Finance. It should be noted that the value of the contributed fixed assets in 2018 was treated as a 2019 equity contribution of the National Government.

Expenditures associated with the funds received from World Bank pay for contractual services provided to TRA.

The following table summarizes the financial condition of TRA for the years ended September 30, 2022 and 2021:

	2022	2021
Assets:		
Cash	$ 168,765	$ 226,401
Accounts receivable	---	65,177
Prepaid Expense	12,855	---
Capital assets, net of accumulated depreciation	32,568	24,330
Right-to-use Lease Asset	16,757	---
	$ 230,945	$ 315,908

	2022	2021
Liabilities:	$ 26,949	$ 70,096
Net position	203,996	245,812
Total Liabilities and Equity	$ 230,945	$ 315,908
Revenues	$ 300,940	$ 288,483
Contributed revenues	34,310	424,836
Interest expense, net	(60)	---
Operating expenses	(377,006)	(631,808)
(Decrease) increase in net position	$ (41,816)	$ 81,511

The total Operating revenues for FY2022 was $300,940, an increase of 4.3% compared to the previous year with an amount of $288,483 while the total operating expenses was decreased by 40%, from $631,808 to $377,006. The drastic decrease in expenses was due mainly to the termination of the governance consultant.

In March 2021, TRA contracted an external consultant to assist TRA in establishing spectrum database, training internal staff in the field of spectrum monitoring/management. The consultant is being paid by the license fees received from the licensed operators as well. In September 2021, TRA and the external consultant for the governance agreed not to renew his contract which expired in January 2022. Also, TRA and the external consultant for the regulatory assistance agreed that the consultant would no longer be paid by the grant money provided by the World Bank effective October 1, 2021. Instead, the consultant would be paid by the TRA from the revenues received from the licensed operators.

The contribution from the World Bank for FY2022 was $34,310 compared to $424,836 in the previous year. $21,790 was taken out of $34,310 and used to pay for the governance adviser whose contract was terminated in January 2022. The remaining funds were used to purchase equipment such as a spectrum analyzer and laptop computer. TRA intends to maintain the contract with the regulatory adviser until the end of term which will be October 1, 2024.

Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in TRA's report on the audit of financial statements, which is dated December 7, 2022. That Discussion and Analysis explains the major factors impacting the 2021 financial statements and can be viewed at TRA's website at www.tra.fm or Office of the 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 Regulation Authority. If you have questions about this report or need additional financial information, please contact Takuro Akinaga, Chief Executive at email address takuro.akinaga@tra.fm or please write to us at P.O. Box 1919, Kolonia, Pohnpei FM 96941.

Federated States of Micronesia
Telecommunication Regulation Authority
(Component Unit of the Federated States of Micronesia National Government)

Statement of Net Position

September 30, 2022

ASSETS	
Current assets:	
Cash	$168,765
Prepaid expense	12,855
Total current assets	181,620
Capital assets, net of accumulated depreciation	32,568
Lease asset	16,757
	$230,945
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable	$ 3,397
Other accrued liabilities	6,777
Lease liability	16,775
Total current liabilities	26,949
Commitments and contingencies	
Net position:	
Net investment in capital assets	32,568
Unrestricted	171,428
Total net position	203,996
	$230,945

See accompanying notes.

Federated States of Micronesia
Telecommunication Regulation Authority
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Statement of Revenues, Expenses, and Changes in Net Position

Year Ended September 30, 2022

Total operating revenues	$300,940
Operating expenses:	
Consultancy	167,394
Payroll related	132,366
Travel	29,344
Lease expense	16,757
Depreciation	11,571
Utilities	3,195
Telecommunication	1,759
Miscellaneous	14,620
Total operating expenses	377,006
Loss from operations	(76,066)
Nonoperating revenues:	
World Bank contribution	34,310
Interest expense, net	(60)
Change in net position	(41,816)
Net position at beginning of year	245,812
Net position at end of year	$203,996

See accompanying notes.

Federated States of Micronesia
Telecommunication Regulation Authority
(Component Unit of the Federated States of Micronesia National Government)

Statement of Cash Flows

Year Ended September 30, 2022

Cash flows from operating activities:	
Cash received from operating revenues	$ 235,763
Cash paid to suppliers for goods and services	(174,267)
Cash paid to employees	(133,635)
Net cash used for operating activities	(72,139)
Cash flows from noncapital financing activities -	
Operating subsidy received from World Bank	34,310
Cash flows from capital and related financing activities:	
Additions to property, plant and equipment	(19,809)
Cash received from interest and other income	2
Net cash used for capital and related financing activities	(19,807)
Net change in cash and cash equivalents	(57,636)
Cash and cash equivalents at beginning of year	226,401
Cash and cash equivalents at end of year	$ 168,765
Reconciliation of loss from operations to net cash used for operating activities:	
Loss from operations	$(76,066)
Adjustments to reconcile loss from operations to net cash used for operating activities:	
Depreciation and amortization	
11,571	
Interest expense	(62)
Decrease (Increase) in assets:	
Accounts receivable	65,177
Prepaid expense	(12,855)
Right-of-use lease asset	(16,757)
(Decrease) Increase in liabilities:	
Accounts payable	(59,909)
Lease liability	16,775
Other accrued liabilities	(13)
Net cash used for operating activities	$(72,139)
Supplementary disclosure of noncash investing and financing activities:	
Initial recognition of right-of-use lease asset	$ 33,513
Initial recognition of lease liability	$ 33,513

See accompanying notes.

1. Organization

The Federated States of Micronesia (FSM) Telecommunication Regulation Authority (the Authority), a component unit of the FSM National Government, is a regulatory body governing telecommunication services in the FSM.

The Authority was established as a public corporation under Public Law 18-52, the purpose of which is to be regulator charged with setting standards and guidelines in enhancing access to and affordability of telecommunications services in the Federated States of Micronesia. The Authority is governed by a Chief Executive and two members, all appointed by the President of the FSM with the advice and consent of the FSM Congress.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Authority maintains a chart of accounts in accordance with accounting principles generally accepted in the United States of America (GAAP). Additionally, the Authority 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 Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. The Authority has no restricted net position at September 30, 2022.

2. Summary of Significant Accounting Policies, continued

Basis of Accounting, continued

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

Accounting Estimates

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

Cash and Cash Equivalents

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

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

As of September 30, 2022, the cash balance was $168,365, and the corresponding bank balance was $168,365, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, bank deposits were fully subject to the FDIC insurance coverage limit.

Accounts Receivable

Account receivable are primarily reimbursements due from funding agencies, stated at the amount management expects to collect on outstanding balances. There are no outstanding receivable as of September 30, 2022.

Capital Assets

Capital assets are stated at cost. The Authority capitalizes buildings, land improvements and equipment that have a cost of $150 or more and an estimated useful life of at least two 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.

2. Summary of Significant Accounting Policies, continued

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 Authority has no items that qualify for reporting in this category.

Compensated Absences

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

Deferred Inflows of Resources

In addition to liabilities, the 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 Authority has no items that qualify for reporting in this category.

Income Taxes

Corporate profits are not subject to income tax in the FSM. The Authority is specifically exempt from taxes in accordance with its enabling legislation for the year ended September 30, 2022.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of systems to provide services as required in its enabling legislation. Non-operating revenues and expenses result from capital; financing and investing activities, costs and related recoveries from natural disasters, operating grants, and certain other non-recurring income and costs.

Revenue Recognition

The Authority primarily earns revenue through assessments of license application fees, license renewal fees and annual fees by licensees. During the year ended September 30, 2022, operating revenues were primarily earned from the FSM Telecommunications Corporation (FSMTC) and FSM Telecommunications Cable Corporation (FSMTCC), both component units of the FSM National Government at 97% and 2% of total operating revenues, respectively.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Upon adoption of this standard, the Authority recorded a right-of-use asset and lease liability of $33,513 at October 1, 2021. The adoption of GASB Statement No. 87 did not result in an effect on beginning net position.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The adoption of GASB Statement No. 89 did not result in a material effect on the accompanying financial statements.

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

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

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

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

Upcoming Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. 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.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year 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. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to more easily locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. GASB Statement No. 99 will be effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

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

3. Capital Assets

Capital asset activities of the Authority for the year ended September 30, 2022, are as follows:

	Estimated Useful Lives	Balance October 1, 2021	Additions	Retirements	Balance September 30, 2022
Furniture and fixtures	5 years	$ 9,702	$ ---	$ ---	$ 9,702
Equipment	3-5 years	11,336	15,306	---	26,642
Vehicles	8 years	14,500	---	---	14,500
Computer, hardware and software	2-7 years	17,603	4,503	---	22,106
Total		53,141	19,809	---	72,950
Accumulated depreciation		(28,811)	(11,571)	---	(40,382)
		$24,330	$ 8,238	$ ---	$32,568

4. Commitments and Contingencies

Leases

The Authority leases office space under a lease which expires in September 2023 with a monthly fixed lease payment of $1,400 effective September 1, 2021.

As of September 30, 2022, the Authority's right-of-use lease asset, net of accumulated depreciation and lease liability are as follows:

Right-of-use lease asset, net	$16,757
Lease liability	$16,775

The approximate future minimum annual lease payments payable by the Authority for the year ending September 30, 2022 is:

Year ending September 30,	
2023	$16,800

In May 2023, the Authority moved to another location under a new two-year lease and terminated the existing lease without penalty.

Self-Insurance

The Authority purchases insurance to cover risks associated with its vehicles. There have been no significant reductions in coverage, and there have been no settlements in excess of insurance coverage occurred during the year ended September 30, 2022.

Litigation

In the ordinary course of business, claims may be filed against the Authority. Management has represented that no losses have been filed or are expected to be filed for Authority activity for the year ended September 30, 2022.

5. Grants and Subsidies

The Authority may receive grants from the United States Government or other foreign governments or organizations either as a direct recipient or as a sub-recipient from the FSM National Government. During the year ended September 30, 2022, the Authority received $34,310 in contributions from the World Bank primarily to fund consultancy costs.

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

Board of Directors
Federated States of Micronesia Telecommunication Regulation Authority:

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) Telecommunication Regulation Authority (the Authority), which comprise the statement of net position as of September 30, 2022, and the related statement of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2023.

Internal Control Over Financial Reporting

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

Purpose of this Report

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

Ernst + Young LLP

November 10 2023