Financial Statements, Required Supplementary Information, and Supplementary Information

Federated States of Micronesia Telecommunications Corporation

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

Years Ended September 30, 2022 and 2021 with Report of Independent Auditors

Building a better working world

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

Years Ended September 30, 2022 and 2021

Contents

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Report of Independent Auditors

Board of Directors
Federated States of Micronesia Telecommunications Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Federated States of Micronesia (FSM) Telecommunications Corporation (the Corporation), 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 Corporation'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 business-type activities of the Corporation as of September 30, 2022, and the changes in financial position and 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 Corporation, 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.

Report of Other Auditors on 2021 Financial Statements

The financial statements of the Corporation for the year ended September 30, 2021 were audited by another auditor who expressed an unqualified opinion on those financial statements on June 13, 2022.

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 Corporation'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 Corporation'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 Corporation's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank's basic financial statements. The Schedule of Operating Expense and Schedule of Expenditures of Federal Awards on pages 37 and 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, Schedule of Operating Expense and Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2024, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Corporation'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 Corporation's internal control over financial reporting and compliance.

Ernst + Young LLP

March 13, 2024

Management's Discussion and Analysis

Years Ended September 30, 2022 and 2021

Our discussion and analysis of the Federated States of Micronesia Telecommunications Corporation (FSMTC) financial performance provides an overview of the FSMTC financial activities for the fiscal year ended September 30, 2022. This discussion has been prepared by the FSMTC management to further provide an introduction and understanding of the basic financial statements for the year ended September 30, 2022. Please read it in conjunction with the financial statements and the notes thereto, which follow this discussion and analysis. Fiscal year 2021 and 2020 comparative information has been included where applicable.

The FSMTC is a public corporation of the Federated States of Micronesia National Government and is the primary provider of telecommunications services throughout the Federated States of Micronesia (FSM) and to points outside of the FSM. The FSMTC used to provide Cable TV in the State of Kosrae, and Digital Broadcast Television (DBTV) to both Yap and Chuuk States. With the introduction of fiber optic technology, these cable television services are now being replaced by IPTV, where the delivery of media content, videos or live television are over an IP network, with the exception of Kosrae. Pohnpei, Chuuk & Yap state are now connected to submarine fiber optic cable and soon to be connected is Kosrae. Pohnpei’s submarine fiber optic cable was funded by a loan from Rural Utilities Corporation (RUS-USDA), whereas the submarine fiber optic cable for Chuuk & Yap are funded by grants from World Bank. The submarine fiber optic cables for Yap & Chuuk are being managed by FSM Telecommunications Cable Company (FSMTCC), another component unit of the FSM national government.

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

The FSMTC provides telecommunications services which include Plain Old Telephone Services (POTS) to **6,414** active subscribers (Pohnpei – **3,310**, Chuuk – **835**, Yap – **1,303** & Kosrae – **966**). These numbers had declined over the years due to the use of cellular phones. Other telecommunications services provided are National and International Overseas Calls, Internet Services, Mobile Cellular Services with **26,442** active subscribers (Pohnpei –**11,814**, Chuuk – **9,109**, Yap –**3,828** & Kosrae –**1,691**).

In the past FSMTC relies on calls made to and from outside of the FSM and calls within the FSM. Now overseas and domestic calls continue to decline and account for **2.57%** of FSMTC's FY2022 operating revenues as compared with **2.73%** of the FSMTC's FY2021 operating revenues. During FY2022, FSMTC realized a **decrease** in Overseas and Domestic Call Revenue of **-$57,897** (or **–12.26%**) as compared to FY2021. With the expansion of the internet in even the most remote or secluded places on earth, communication has become fast, easy, and almost free. More and more smart phones are introduced in the market and accessibilities to unlimited internet, subscribers were able to utilize such technology to place overseas calls thru the use of applications available in the internet in which most of these applications are free. Accessing internet thru mobile infrastructure using 3G, 4G & LTE technologies further makes it more convenient for the subscribers to use various apps to bypass the traditional voice calls. The availability of so many OTTs (Over the Top Applications) in the internet which are continuously being developed to be more efficient is really hurting the overseas toll revenue.

Internet Services account for **41.28%** of FSMTC's FY2022 operating revenues as compared with **40.50%** of FSMTC'S FY 2021 operating revenues. During FY2022, FSMTC realized an **increase** in Internet service revenues of **$351,632** (or **5.02%**) as compared to FY2021. More and more customers are moving to unlimited internet service by subscribing to ADSL which contributed to the increase in internet revenue. It is expected that data services will continue to dominate the telecom services in terms of revenue contribution. With the cost of bandwidth getting cheaper and cheaper more and more customers are moving to data services. FY2022 is still a pandemic year due to Covid19. The coronavirus outbreak has driven many commercial and social activities online and for some the internet has become an ever more crucial link to those they love and the things they need. Most schools have closed and classes and assignments have shifted online creating a huge impact on internet services.

Mobile services account for **44.45%** of FSMTC's FY2022 operating revenues as compared with **45.62%** of FSMTC's FY2021 operating revenues. During FY2022, FSMTC realized a **decrease** in mobile service revenues of **-$724,914** (or **-9.19%**) as compared to FY2021. In March 2020, due to the pandemic caused by Covid19 virus, FSM closed its borders and ports to all incoming tourists and returning residents and reopened August 1, 2022. Where mobile roaming relies heavily on tourists, revenue from roaming continues to drop to about **-68.61%** or **-$161,303.** Mobile phones are now considered as a major personal and business accessory. With the introduction of more voice/data plans, more and more customers are enticed to register to save some money and enjoy the internet and mobile services. Sales of mobile phones also dropped due to FSM government's stimulus packages that had dried out by the end of September 2021.

Net inbound carrier (external carriers) revenue account for **0.77%** of FSMTC's FY2022 operating revenues as compared with **1.68%** of FSMTC's FY2021 operating revenues. During FY2022, FSMTC realized a **decrease** in net carrier revenues of **-$166,494** (or **-57.25%**) as compared to FY2021. The huge drop in settlement revenue can be attributed to upgrades on OTTS (Over the top services) on INTERNET such as Skype, Facebook messenger, Viber, WeChat, WhatsApp, etc.

Statement of Net Position

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

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

The following summarizes the financial condition and operations of the FSMTC for FY2022, FY2021 and FY2020:

	2022	2021	2020
Assets:			
Cash and cash equivalents	$ 5,354,028	$ 4,226,100	$ 3,127,104
TCD's and investments in securities	1,857,689	2,327,001	2,022,241
Receivables and prepayments	1,569,908	2,602,491	2,207,064
Inventory	1,269,054	1,219,811	1,066,362
Total current assets	10,050,679	10,375,403	8,422,771
Advance payment to vendor	172,422	1,486,555	955,238
Property, plant and equipment	26,899,991	28,113,694	28,973,453
Other non-current assets	2,032,900	2,162,403	2,324,655
	$39,155,992	$42,138,055	$40,676,117
Liabilities:			
Current liabilities	$ 4,678,500	$ 5,515,185	$ 3,607,265
Non-current liabilities	7,696,319	8,722,355	18,000,001
Total liabilities	12,374,819	14,237,540	21,607,266
Net Position:			
Net investment in capital assets	20,181,713	20,551,657	12,601,147
Unrestricted	6,599,460	7,348,858	6,467,704
Total liabilities	26,781,173	27,900,515	19,068,851
	$39,155,992	$42,138,055	$40,676,117

The total liabilities of FSMTC had **decreased** by **13.08%.** The equity of FSMTC was affected by the change in both assets and liabilities and net **loss** from operations & non-operations totaling to **-$1,219,342**, and net of **$100,000** in capital contribution**.**

During FY2022, total cash received from telecommunications services exceeded the amounts paid to vendors and employees for goods and services. This resulted in net cash provided by operating activities of **$4,975,220** as compared with **$5,305,344** in FY2021.

The cash and cash equivalents at the end of FY2022 are **$5,354,028** as compared to **$4,226,100** at the end of FY2021. The **increase** in cash and cash equivalents can be attributed loan forgiveness where monthly loan amortization had dropped from $250,000 down to $99,000. This cash savings are being deposited to construction fund account as reserves for the build out of Fiber to the Home as required by RUS.

On April 9, 2021, a civil action number 2021-010 was filed against FSMTC (defendant) by FSM Telecommunications Cable Corporation (FSMTCC) also known as the open access entity (OAE) (plaintiff), for complaint for money damages, specific performance, injunctive relief, and declaratory judgment. On May 12, 2022, there was a hearing on motion for summary judgement and as of this writing, the court has not issued any decision. This case has a huge impact on the current liabilities since all payments due to FSMTCC are on hold until the matter is resolved. The case is still ongoing as of September 30, 2022.

Statement of Revenues, Expenses and Changes in Net Position

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

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

The following table summarizes the financial operations of the FSMTC for the years ended September 30, 2022, 2021 and 2020.

	2022	2021	2020
Operating revenues, net	$16,137,246	$17,244,475	$16,113,421
Operating expenses	(16,950,099)	(16,572,983)	(15,559,183)
Net operating (loss) income	(812,853)	671,492	554,238
Investment (loss) gain, net	(427,347)	304,344	196,246
Interest expense	(185,612)	(384,427)	(941,564)
Other non-operating income	206,470	---	---
RUS loan forgiveness	---	8,209,255	---
Net non-operating (loss) income net	(406,489)	8,129,172	(745,318)
Capital grants	100,000	31,000	251,196
Change in net position	(1,119,342)	8,831,664	60,116
Net position beginning of year	27,900,515	19,068,851	19,008,735
Net position, end of year	$26,781,173	$27,900,515	$19,068,851

Total operating revenue in FY2022 **decreased** by **-$1,107,229** (or **-6.42%**) compared to FY2021. The revenue drop was felt when the economic stimulants for the pandemic assistance ceased in February 2022. Operating expenses in FY2022 **increased** by **$377,116** (or **2.28%**) compared to FY2021 operating expenses. With inflation rates rising, telecommunications industries are facing increasing costs and slowing market growth rates, leading to shrinking margins and increases in losses.

The FSMTC investments in property, plant and equipment, net of accumulated depreciation, amounted to **$26,899,991** in FY2022 and **$28,113,694** in FY2021. This decrease of **$1,213,703** (or **–4.32%**) is primarily due to depreciation expenses, retirement of fixed assets and losses from operations. For additional information concerning capital assets, please refer to note 4 to the accompanying financial statement.

FSMTC's notes payable with the US Department of Agriculture (Rural Utilities Services) amounted to **$8,718,429** at the end of FY22**.** For additional information concerning the FSMTC's long term debt, please refer to note 7 to the accompanying financial statements.

Economic Outlook

Telecommunications is now considered an infrastructure essential to a country's economic development and competitiveness. Apart from facilitating communication and various economic activities, telecommunications is an economic sector in itself. The mobile phone boom worldwide has created jobs and generated income for the government, operators, manufacturers, service providers, and application/content developers. In developing countries, mobile phones serve as the universal access tool, especially for their low-income populations.

The telecommunications industry has undergone a huge fundamental shift in the space of just a few years. Wireless communication has largely replaced fixed-line communications, while various forms of Internet communication has rapidly outpaced traditional phone calls as a primary means of communication for individuals and businesses.

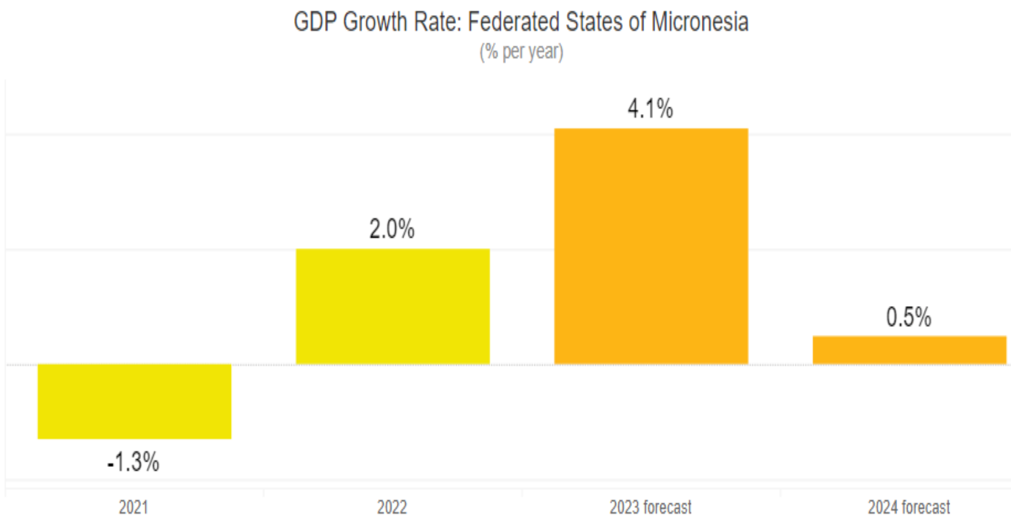
The emerging market economies of major players in Asia have fostered the 21st-century boom in demand for telecommunications equipment and telecommunications services across the board. This includes computer equipment and services, smartphones, and satellite and cable television services.

The telecommunication sector is very capital intensive, providing larger firms with an easier path to expanding their market share by virtue of having the necessary capital for research and development spending, as well as for continuous capital reinvestment. Extensive underlying cable networks are constantly being expanded, both physically and in terms of capability. FSM government relies heavily on funding thru grants like the World Bank, United States Department of Agriculture (USDA) thru Rural Utilities Services, in building and upgrading telecommunications infrastructures like the submarine fiber optic cable that cost millions of dollars in capital investments.

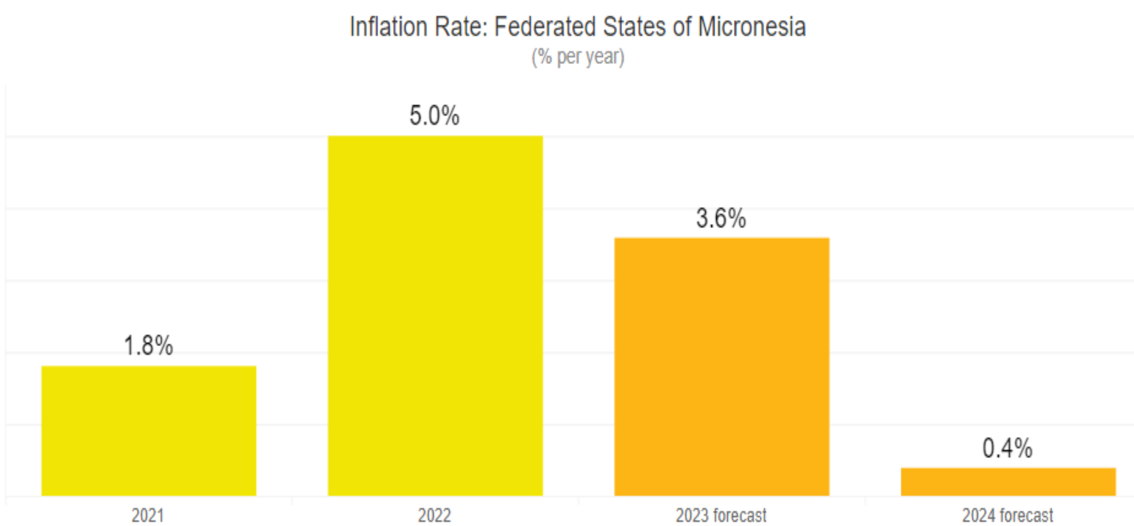
In addition to basic segments such as computers, cell phones, Internet services, and satellite equipment and services, the sector encompasses an array of supporting industries such as Bluetooth equipment, equipment required for the Internet of Things (ioT), coaxial cables, and adapters. The most successful telecommunications firms and those able to command the highest profit margins are those companies that do the best job of managing capital, investing wisely, staying on the cutting edge of technology, and most successfully establishing a brand identity.

Based on ADB's outlook for 2023, FSM's growth will be about 4.1% which is fourth highest in the Pacific region. Inflation will go down in 2023 and the per capita growth rate will increase to 3.9% in 2023.

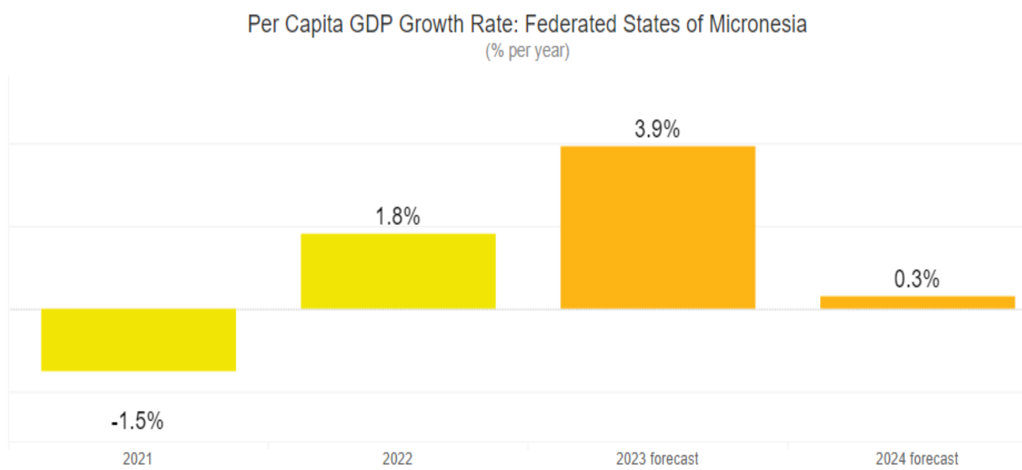
Economic indicators for the Federated States of Micronesia



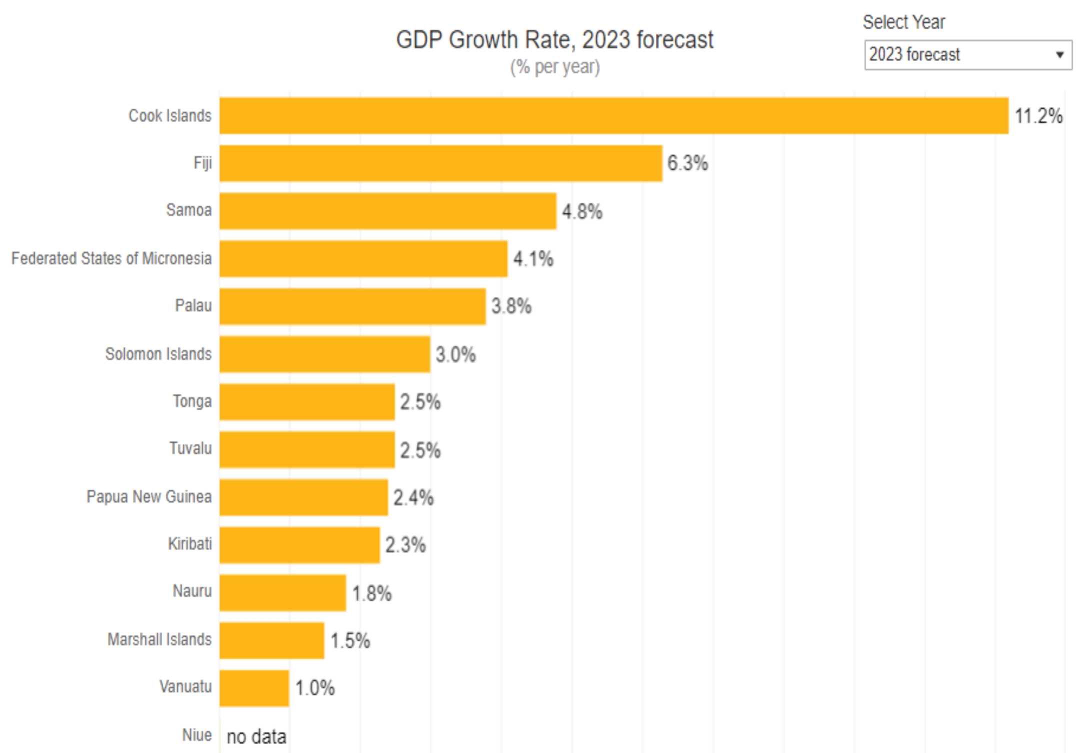
Source: Asian Development Bank. Asian Development Outlook 2023 (April 2023)



Source: Asian Development Bank. Asian Development Outlook 2023 (April 2023)



Source: Asian Development Bank. Asian Development Outlook 2023 (April 2023)



Source: Asian Development Bank. Asian Development Outlook 2023 (April 2023)

Management's Discussion and Analysis, continued

With the submarine fiber optic cable connectivity in Pohnpei, Chuuk & Yap, telecommunications services will be better, faster and cheaper. Kosrae is the only state that relies on satellite connectivity and will be connected to fiber optic in 2026. FSMTC is committed to bring reliable and cost-effective communication services to every household in the FSM. Most of the telecommunications services provided in other more developed countries are available in the Federated States of Micronesia. These modern telecommunications services should go a long way in assisting the Federated States of Micronesia in its efforts to attract investors and to further develop our island nation. FSMTC will continue to seek improved technologies to better serve its customers and at the same time bring significant operating savings.

Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in FSMTC'S report on the audit of financial statements, which is dated June 13, 2022. That Discussion and Analysis explains the major factors impacting the 2021 financial statements and can be viewed at the Office of the FSM National Public Auditor's website at www.fsmopa.fm.

Financial Contact

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

Statements of Net Position

	September 30, 2022	September 30, 2021
Current assets:		
Cash and cash equivalents	$ 5,354,028	$ 4,226,100
Time certificates of deposit	279,494	279,460
Investment in securities	1,578,195	2,047,541
Accounts receivable, net of an allowance for doubtful accounts of $919,107 and $949,698 in 2022 and 2021, respectively	440,578	451,614
Receivables from international carriers	46,684	62,709
Other receivables	24,088	1,009
Inventory	1,269,054	1,219,811
Accrued interest and other accrued earnings	138,062	196,025
Prepaid expenses and other current assets	920,496	1,891,134
Total current assets	10,050,679	10,375,403
Other receivables, net of an allowance for doubtful accounts of $2,301,467 in 2022	32,749	---
Advance payment to vendor	172,422	1,486,555
Capital assets:		
Non-depreciable capital assets	3,742,136	2,291,121
Capital assets, net of accumulated depreciation	23,157,855	25,822,573
Indefeasible right of use, net	2,000,151	2,162,403
	$39,155,992	$42,138,055
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	$ 1,022,110	$ 1,002,085
Accounts payable, trade	397,756	228,716
Unearned income	184,222	294,685
Customer deposits	419,070	2,072,805
Accrued leave payable	144,797	116,194
Other accrued liabilities	2,510,545	1,800,700
Total current liabilities	4,678,500	5,515,185
Long-term debt, net of current portion	7,696,319	8,722,355
Total liabilities	12,374,819	14,237,540
Commitments and contingencies		
Net position:		
Net investment in capital assets	20,181,713	20,551,657
Unrestricted	6,599,460	7,348,858
Total net position	26,781,173	27,900,515
	$39,155,992	$42,138,055

See accompanying notes.

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

Statements of Revenues, Expenses, and Changes in Net Position

	Year ended September 30, 2022	Year ended September 30, 2021
Operating revenues:		
Mobile charges	$ 7,163,800	$ 7,888,714
Internet	6,652,837	7,004,469
Net access	2,175,398	2,081,747
Overseas tolls	414,351	472,248
External carriers	124,337	290,831
Miscellaneous	127,029	162,713
ICTV Pohnpei cable charges	29,853	51,703
ICTV Kosrae cable charges	25,439	30,054
ICTV Chuuk cable charges	19,512	29,961
ICTV Yap cable charges	6,607	24,551
Discounts	(623,628)	(743,813)
	16,115,535	17,293,178
Bad debts recovery (expense)	21,711	(48,703)
Net operating revenues	16,137,246	17,244,475
Operating expenses:		
Corporate operations	3,124,087	2,969,175
Consumer operations	2,756,938	2,998,877
Internet expense	2,499,015	2,571,475
Plant operations	2,214,717	1,564,989
Cable and wire	1,809,347	2,247,049
Wireless and telephone	1,640,089	1,608,686
General support	1,419,582	1,331,141
Terminal equipment	690,170	598,664
Central office	370,414	230,874
ICTV expense	215,546	283,670
Earth station	210,194	168,383
Total operating expenses	16,950,099	16,572,983
(Loss) income from operations	(812,853)	671,492

See accompanying notes.

Statements of Revenues, Expenses, and Changes in Net Position, continued

	Year ended September 30, 2022	Year ended September 30, 2021
Nonoperating revenues (expenses):		
RUS loan forgiveness	---	8,209,255
Interest expense	(185,612)	(384,427)
Net change in fair value of investments	(427,347)	304,344
Other non-operating income	206,470	---
Total nonoperating revenues (expenses), net	(406,489)	8,129,172
(Loss) income before capital contributions	(1,219,342)	8,800,664
Capital contributions	100,000	31,000
Change in net position	(1,119,342)	8,831,664
Net position at beginning of year	27,900,515	19,068,851
Net position at end of year	$26,781,173	$27,900,515

See accompanying notes.

Statements of Cash Flows

	Year ended September 30, 2022	Year ended September 30, 2021
Cash flows from operating activities:		
Cash received from subscribers, long distance carriers and other customers	$16,055,979	$17,898,641
Cash paid to suppliers for goods and services	(7,295,030)	(8,792,336)
Cash paid to employees	(3,785,731)	(3,800,961)
Net cash provided by operating activities	4,975,218	5,305,344
Cash flows from capital and related financing activities:		
Capital contributions received from FSM National Government	100,000	31,000
Additions to property, plant and equipment	(2,797,632)	(3,089,239)
Repayments of long-term debt	(1,006,011)	(763,266)
Interest paid on long-term debt	(185,753)	(384,843)
Net cash used in capital and related financing activities	(3,389,396)	(4,206,348)
Cash flows from investing activities:		
Net purchases, sales and maturities of investments	41,999	---
Interest and dividends	107	---
Net cash provided by investing activities	42,106	---
Net change in cash and cash equivalents	1,127,928	1,098,996
Cash and cash equivalents at beginning of year	4,226,100	3,127,104
Cash and cash equivalents at end of year	$ 5,354,028	$ 4,226,100

See accompanying notes.

Statement of Cash Flows, continued

	Year ended September 30, 2022	Year ended September 30, 2021
Reconciliation of (loss) income from operations to net cash provided by operating activities:		
(Loss) income from operations	$(812,853)	$ 671,492
Non-operating income	206,470	---
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	4,173,587	4,111,250
(Increase) decrease in assets:		
Accounts receivable	11,036	14,399
Receivables from international carriers	16,025	121,787
Inventory	(49,243)	(153,449)
Other receivables	(55,828)	1,145
Accrued interest and other accrued earnings	57,963	(49,260)
Prepaid expenses and other current asset	970,638	(483,498)
Advance payment to vendor	1,314,133	(531,317)
Increase (decrease) in liabilities:		
Accounts payable, trade	169,040	149,122
Unearned income	(110,463)	88,155
Customer deposits	(1,653,735)	479,085
Accrued leave payable	28,603	(36,538)
Other accrued liabilities	709,845	922,971
Net cash provided by operating activities	$4,975,218	$5,305,344

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Nature of Operations

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

Organization

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

Basis of Accounting

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

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

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

1. Organization and Summary of Significant Accounting Policies, continued

Basis of Accounting, Continued

- Restricted - net position whose use by the Corporation is subject to externally imposed stipulations that can be fulfilled by actions of the Corporation pursuant to those stipulations or that expire by the passage of time. The Corporation has no restricted net position at September 30, 2022 and 2021.

- 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 and Time Certificates of Deposit

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

Investments

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

1. Organization and Summary of Significant Accounting Policies, continued

Accounts Receivable

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

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

Valuation of Long-Lived Assets

The Corporation, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At September 30, 2022 and 2021, no assets had been written down.

Deferred Outflows of Resources

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

Compensated Absences

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

Unearned Income

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

1. Organization and Summary of Significant Accounting Policies, continued

Deferred Inflows of Resources

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

Taxes

By Section 208 of title 21 of the Code of the Federated States of Micronesia, as amended by Public Law No. 11-16, the Corporation exists and operates solely for the benefit of the public and shall be exempt from any taxes or assessments except for import taxes or assessments on any of its properties, operations or activities and gross revenue tax (GRT). During the years ended September 30, 2022 and 2021, the FSM National Government assessed the Corporation of GRT of $317,408 and $363,238, respectively.

Federated States of Micronesia Telecommunication Regulation Authority (TRA) establishes the standards and guidelines in enhancing access to and affordability of telecommunication services in the Federated States of Micronesia, using the principles of liberalization, free and open competition, and customer-oriented approach, and for other purposes. During the years ended September 30, 2022 and 2021, the TRA has assessed the Corporation a fee for annual spectrum licenses and additional 1.25% based on latest gross revenue available as the individualized tax in the same amount of payment made for a total of $292,165 and $278,900, respectively.

Revenue Recognition and Classification

Billings for local service revenue and basic internet service are rendered monthly in advance. Advance billings are recorded as a liability and are subsequently transferred to income in the period earned. Prepaid card revenues are recorded when the cards are sold adjusted by the amount of non-activated cards recorded as a liability at the period-end. Unused minutes relating to activated cards are determined to be insignificant.

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

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

Non-operating revenues and expenses result from capital, financing and investing activities and consist of investment earnings, interest paid on long-term debt, and grant funds received.

1. Organization and 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. The adoption of GASB Statement No. 87 did not result in a material effect on the accompanying financial statements.

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.

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.

1. Organization and Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

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. 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. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

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.

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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

In 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.

1. Organization and 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 Corporation is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

2. Investment - Island Cable Television

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

3. Deposits and Investments

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

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

3. Deposits and Investments, continued

Deposits

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

As of September 30, 2022 and 2021, the carrying amount of the Corporation's total cash and cash equivalents and time certificates of deposit was $5,633,522 and $4,505,560, respectively, and the corresponding bank balances were $5,584,966 and $4,522,858, respectively, all of which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022 and 2021, bank deposits in the amount of $417,323 and $377,269, respectively, were FDIC insured. The Corporation does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Corporation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

Investments

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Corporation will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of September 30, 2022 and 2021, the Corporation's investments are held in the name of the Corporation and are administered by investment managers subject to Securities Investor Protection Corporation insurance in accordance with the Corporation's investment policy.

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

3. Deposits and Investments, continued

Investments, continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Corporation. As of September 30, 2022 and 2021, there were no investments in any one issuer that exceeded 5% of total investments except for the U.S. Treasury obligations which account for 13.4% and 8.8% of total investments, respectively.

As of September 30, 2022 and 2021, investments at fair value are as follows:

	2022	2021
Fixed income:		
U.S Treasury obligations	$ 212,105	$ 190,939
Corporate notes	166,823	246,872
	378,928	437,811
Other investments:		
Domestic and international equities	1,178,447	1,548,226
Money market fuds	---	31,377
Real estate and tangibles	20,820	---
Others	---	30,127
	$1,578,195	$2,047,541

As of September 30, 2022, the Corporation's investments in debt securities were as follows:

		Investment maturities (in Years)				
	Moody's Credit Rating	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	Aaa	$19,883	$146,323	$45,899	$ ---	$212,105
Corporate notes	A1	9,803	28,223	8,112	---	46,138
Corporate notes	A2	---	19,990	---	---	19,990
Corporate notes	A3	---	9,621	15,258	---	24,879
Corporate notes	AA2	---	---	6,725	---	6,725
Corporate notes	AA3	---	---	8,820	---	8,820
Corporate notes	BAA1	---	29,951	---	---	29,951
Corporate notes	BAA2	---	30,320	---	---	30,320
		$29,686	$264,428	$84,814	$ ---	$378,928

3. Deposits and Investments, continued

Investments, continued

As of September 30, 2021, the Corporation's investments in debt securities were as follows:

		Investment maturities (in Years)				
	Moody's Credit Rating	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	Aaa	$28,971	$106,455	$55,513	$ ---	$190,939
Corporate notes	A1	9,000	31,185	10,002	---	50,187
Corporate notes	A2	27,191	8,066	20,903	---	56,160
Corporate notes	A3	---	44,148	20,279	---	64,427
Corporate notes	BAA1	---	33,871	---	---	33,871
Corporate notes	BAA2	---	28,640	13,587	---	42,227
		$65,162	$252,365	$120,284	$ ---	$437,811

The Corporation categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income securities classified in Level 2 of the fair value hierarchy are valued using matrix-based or model-based pricing techniques. These pricing techniques, which are obtained from various sources, assume normal market conditions and are based on large volume transactions.

The Corporation has the following recurring fair value measurements as of September 30, 2022 and 2021:

		Fair Value Measurements Using		
	September 30, 2022	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	$ 212,105	$ ---	$212,105	$ ---
Corporate notes	166,823	---	166,823	---
Total fixed income	378,928	---	378,928	---
Equity securities:				
U.S. equities	919,828	919,828	---	---
Non U.S. equities	258,619	258,619	---	---
Total equity securities	1,178,447	1,178,447	---	---
Real estate and tangibles	20,820	---	20,820	---
Total investments by fair value level	$ 1,578,195	$1,178,447	$399,748	$ ---

3. Deposits and Investments, continued

Investments, continued

	September 30, 2021	Fair Value Measurements Using: Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	$ 190,939	$ ---	$190,939	$ ---
Corporate notes	246,872	---	246,872	---
Total fixed income	437,811	---	437,811	---
Equity securities:				
U.S. equities	1,135,821	1,135,821	---	---
Non U.S. equities	412,405	412,405	---	---
Total equity securities	1,548,226	1,548,226	---	---
Total investments by fair value level	1,986,037	$1,548,226	$437,811	$ ---
Investments measured at amortized cost:				
Monet market funds	31,377			
Others	30,127			
Total investments	$2,047,541			

4. Capital Assets

Capital asset activities of the Corporation for the year ended September 30, 2022 and 2021 are as follows:

	Estimated Useful Lives	Balance October 1, 2021	Additions	Retirements	Balance September 30, 2022
General support	5-35 years	$ 17,372,407	$ 687,822	$(121,000)	$ 17,939,229
Central office	20 years	12,357,217	51,334	---	12,408,551
Earth station	20 years	1,828,622	15,331	---	1,843,953
Terminal equipment	5-20 years	3,945,092	173,141	---	4,118,233
Cellular network	10-20 years	24,409,717	37,026	---	24,446,743
Internet equipment	8 years	3,828,478	9,442	---	3,837,920
Pole, cable and wiring	15-20 years	47,948,181	372,521	(45,182)	48,275,520
Total		111,689,714	1,346,617	(166,182)	112,870,149
Accumulated depreciation		(85,867,141)	(4,011,335)	166,182	(89,712,294)
		25,822,573	(2,664,718)	---	23,157,855
Plant under construction		2,291,121	1,451,015	---	3,742,136
Capital assets, net		$ 28,113,694	$(1,213,703)	$(---)	$ 26,899,991

4. Capital Assets, continued

	Estimated Useful Lives	Balance October 1, 2020	Additions	Retirements	Balance September 30, 2021
General support	5-35 years	$ 17,036,424	$ 521,994	$ (186,011)	$ 17,372,407
Central office	20 years	12,290,033	67,184	---	12,357,217
Earth station	20 years	1,826,403	2,219	---	1,828,622
Terminal equipment	5-20 years	3,729,871	215,221	---	3,945,092
Cellular network	10-20 years	23,534,969	874,748	---	24,409,717
Internet equipment	8 years	3,602,976	225,502	---	3,828,478
Pole, cable and wiring	15-20 years	46,337,609	1,610,572	---	47,948,181
Total		108,358,285	3,517,440	(186,011)	111,689,714
Accumulated depreciation		(82,104,154)	(3,948,998)	186,011	(85,867,141)
		26,254,131	(431,558)	---	25,822,573
Plant under construction		2,719,322	2,531,204	(2,959,405)	2,291,121
Capital assets, net		$ 28,973,453	$ 2,099,646	$(2,959,405)	$ 28,113,694

5. Indefeasible Right of Use (IRU)

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

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

As of September 30, 2022 and 2021, the Corporation's IRU are as follows:

	2022	2021
Cost	$3,896,301	$3,896,301
Accumulated amortization	(1,896,150)	(1,733,898)
IRU, net	$ 2,000,151	$2,162,403

6. Long-term Debt

Long-term debt at September 30, 2022 and 2021 are as follows:

	2022	2021
Loans payable to RUS, with a 35-year term, interest at 5% per annum, collateralized by the Corporation's specific ground leases and essentially all other assets. Pursuant to loan agreements dated August 1, 1990 and March 12, 2009, the Corporation is required to make monthly payments of both principal and interest to RUS. The loans were originally in the amounts of $32,000,000 and $12,136,000 and the proceeds were used for capital related purposes. The balance is net of a partial loan forgiveness of $8,209,255 approved by the RUS and recorded during the year ended December 30, 2020. Remaining balance is payable in monthly installments of approximately $99,000 with final payment due in April 2030.	$ 8,718,429	$ 9,724,440
Less current portion of long term debt	(1,022,110)	(1,002,085)
Long term debt, net of current portion	$7,696,319	$8,722,355

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

Year Ending September 30,	Principal	Interest	Total
2023	$1,022,110	$162,772	$1,184,882
2024	1,042,456	142,426	1,184,882
2025	1,063,206	121,676	1,184,882
2026	1,084,370	100,512	1,184,882
2027	1,105,955	78,927	1,184,882
2028-2030	3,400,332	102,935	3,503,267
	$8,718,429	$709,248	$9,247,677

6. Long-term Debt, continued

A summary of changes in long-term debt for the years ended September 30, 2022 and 2021 are as follows:

	Balance October 1, 2021	Increases	Decreases	Balance September 30, 2022	Due Within One Year
Notes payable:					
Rural Utilities Service	$9,724,440	$ ---	$(1,006,011)	$8,718,429	$1,022,110

	Balance October 1, 2020	Increases	Decreases	Balance September 30, 2021	Due Within One Year
Notes payable:					
Rural Utilities Service	$18,696,961	$ ---	$(8,972,521)	$9,724,440	$1,022,085

7. Commitments and Contingencies

Operating Leases

The Corporation has various operating leases as of September 30, 2022. Three are for land sites for state offices beginning in 1988 for Pohnpei and Yap and 1990 for Kosrae. There is one land site lease for the southeast remote switch on Pohnpei with a 15-year term beginning in 1994. These are state owned lands which renewal leases are pending at the state governments.

Future minimum payments payable by the Corporation, excluding expired leases that are pending renewal, as follows:

Year ending September 30,	
2023	$ 3,628
2024	3,628
2025	3,628
2026	3,628
2027	3,628
2028-2031	14,512
Total future lease payments	$32,652

During the years ended September 30, 2022 and 2021, operating expense recorded under the operating lease agreements totaled $19,889 and $19,889, respectively.

7. Commitments and Contingencies, continued

Circuit Service Agreements

The Corporation has also entered into various service agreements, expiring through 2031, to receive bandwidth/circuit capacities from Satellite owners and operators to improve internet capacity in the States of Pohnpei, Chuuk, Kosrae and Yap.

Future minimum payments payable by the Corporations under these agreements are as follows:

Year ending September 30,	
2023	$ 2,362,431
2024	1,694,865
2025	1,467,403
2026	1,471,046
2027	1,474,799
2028-2031	5,794,011
Total future contract payments	$14,264,555

During the years ended September 30, 2022 and 2021, operating expense recorded under the circuit service agreements totaled $2,195,970 and $2,167,471, respectively.

Operation, Management and Repair (OM&R) Agreement

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

7. Commitments and Contingencies, Continued

Self-Insurance

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

Construction Commitments

The Corporation has entered into various contracts for construction and expansion of its facilities and services. Approximately $2,966,000 is outstanding under these contracts as of September 30, 2022.

External Carriers

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

Litigation

In the ordinary course of business, claims have been filed against the Corporation. Management does not believe that the plaintiffs will prevail and the ultimate outcome is currently not determinable. Therefore, no provision has been recorded in the accompanying financial statements for losses, if any, that may result. See note 8 for litigation with a related party.

8. Related Party Transactions

The Corporation's services are provided to its affiliates at the same rates as are charged to third parties. The Corporation is a component unit of the FSM National Government.

Grants and Subsidies

During the years ended September 30, 2022 and 2021, the Corporation received capital contributions and operating subsidies of $100,000 and $31,000, respectively, from the FSM National Government for the purpose of upgrading network services in all four states.

Cable System in Chuuk and Yap State

On March 15, 2019, FSM National Government transferred to FSM Telecommunications Cable Corporation (FSMT Cable Corporation), a component unit of the FSM National Government, the custody and maintenance of new submarine cable systems constructed under the financial agreement namely Yap Spur and Chuuk-Pohnpei Cable. The Corporation pays monthly charges for the services provided by FSMT Cable Corporation based on actual costs incurred. During the years ended September 30, 2022 and 2021, the Corporation recognized expenses of $782,736 and $782,736, respectively, for services provided by FSMT Cable Corporation.

Starting April 2020, the Corporation ceased all payments due to FSMT Cable Corporation because the Corporation challenged the IRU deed. As of September 30, 2022 and 2021, unpaid charges for services provided amounted to $1,956,840 and $1,108,876, respectively, which are currently in dispute. Such is presented as other accrued liabilities in the statements of net position.

Based on the IRU between the Corporation and FSMT Cable Corporation, half of the fiber will be given to FSMT Cable Corporation in exchange for paying half of the loan associated with the construction of submarine fiber that runs from Pohnpei to the HANTRU1 branching unit or the RUS Loan B. 50% of the total monthly amortization plus maintenance costs were billed to FSMT Cable Corporation resulting in an outstanding balance of $2,231,620 of September 30, 2022, net of an allowance for doubtful accounts of $2,231,620, which is included in other non-current receivables in the accompanying financial statements. As of September 30, 2021, the outstanding of $1,666,147 is recorded in prepaid expense and other current asset, net of a deferred credit of $1,666,147 in customer deposit in the accompanying 2011 statement of net position.

8. Related Party Transactions, Continued

Cable System in Chuuk and Yap State, Continued

In May 2021, FSMT Cable Corporation filed a lawsuit (Civil Action No. 2021-010) against the Corporation for breach of contract and to confirm the validity of the IRU. The Corporation filed a counter claim to set aside the agreement and seeking damages or compensation for the property sought to be confiscated through this agreement.

In July 2023, the FSM Supreme Court trial division entered a judgment of $2,678,197 in favor of FSMT Cable Corporation for the Corporation's unpaid invoices to FSMT Cable Corporation computed through July 2023, including post judgment interest accruing at 9% per annum, with attorney fees to be determined. The Corporation filed an appeal of the judgement and a motion to stay enforcement of the judgment pending appeal. It also sought to stop further accruing 9% of interest on the judgmental while the appeal is pending. The Court granted the Stay in an order dated October 9, 2023 with the condition that the Corporation paid into court the judgement amount of approximately $2.8 million as a bond, which will be placed into a separate account under the Courts' control. Additionally, the Corporation is ordered to pay FSMT Corporation's monthly invoices since August 2023.

The Corporation intends to vigorously defend its position in the appeal, settlement discussions, or other avenues such as through FSM Legislature actions.

9. Retirement Plan

The Corporation's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees received from the FSM Social Security System. The Plan is a contributory plan in which the Corporation contributes 10 percent of the participant's annual salary, and the participant contributes 3 or more percent from his or her annual salary. Participation is optional. The Corporation's President/CEO and Senior Vice President/CFO are the designated Plan administrator. Employer contributions to the Plan during the years ended September 30, 2022 and 2021 were $265,422 and $250,992, respectively, and employee contributions were $184,319 and $162,805, respectively. Management is of the opinion that the plan does not represent an asset or liability of the Corporation. At September 30, 2022 and 2021, plan assets were $3,183,583 and $4,495,657, respectively.

During the year ended September 30, 2022, the Corporation opted for a refund from the Plan related to the Corporation's share that had accumulated over the years for participants that did not reach any vested interest on employer's share when the participant left the corporation. The refund of $206,470 was recorded as non-operating income in the accompanying financial statements.

Supplementary Information

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

Schedule of Operating Expenses

	Year ended September 30, 2022	Year ended September 30, 2021
Depreciation and amortization	$ 4,173,587	$ 4,111,250
Salaries and wages	4,020,804	3,774,882
Circuit lease	2,195,970	2,167,471
Cost of sales	1,929,558	2,116,600
Utilities	1,399,710	1,136,920
Repairs and maintenance	1,198,445	1,164,140
Taxes	629,031	656,139
Rental expenses	213,195	212,855
Petroleum and lubricants	177,964	149,452
Supplies	155,317	120,323
Contractual services	103,501	163,492
Freight	98,253	88,446
Communication	89,450	93,717
Professional fees	84,639	92,191
ICTV Affiliated	75,546	54,057
Advertising	60,415	93,716
Insurance	55,211	51,105
Travel	27,263	50,316
Publications and printing	24,249	23,644
Training	22,355	17,455
Representation	22,329	27,661
Land lease	21,015	20,990
Miscellaneous	172,292	186,161
	$16,950,099	$16,572,983

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2022

U.S. Department of Agriculture
Rural Utilities Service Loan Funding:

Approved Purposes	Loan Proceeds Approved as of September 30, 2022	Total Disbursements as of September 30 2022	Loan Proceeds Received During FY 2022	Total Disbursements on Contracts During FY 2022
F/A 1	$ 411,584	$ 411,584	$ ---	$ ---
Work Orders	422,905	422,905	---	---
CT. A-4	90,688	90,688	---	---
CT. A-5	1,191,004	1,191,004	---	---
CT. A-6	650,676	650,676	---	---
CT. A-7	3,108,615	3,108,615	---	---
CT. A-8	3,500,000	3,498,060	---	---
CT. A-9	1,108,149	1,108,149	---	---
CT. A-10	636,505	636,505	---	---
CT. A-11	1,193,317	1,193,317	---	---
CT. A-12	1,422,800	1,422,800	---	---
CT. A-13	19,440,795	19,440,795	---	---
CT. A-14X	1,988,002	1,896,221	---	---
CT. B-15	8,205,857	8,205,857	---	---
CT. B-16E	274,500	274,500	---	---
CT. A-1E	275,625	275,625	---	---
CT. A-2E	4,008,263	4,005,984	---	---
CT. A-3A	304,109	304,109	---	---
Operating Equipment	387,263	387,263	---	---
Pre-Loan	55,000	55,000	---	---
IRU Capital Lease	3,656,301	3,656,301	---	---
Interest Income	---	(141,191)	---	---
	$52,331,958	$52,094,767	$ ---	$ ---

Total loan A approved was $41,000,000 and Loan B approved was $13,120,000 or a total of $54,120,000. Draw downs totaled $52,094,767 through project completion.

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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 Telecommunications Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia (FSM) Telecommunications Corporation (the Corporation), which comprise the statement of net position as of September 30, 2022, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Ernst + Young LLP

March 13, 2024