

*Financial Statements, Required Supplementary
Information, Supplementary Information
and Compliance and Internal Control*

**Federated States of Micronesia
Telecommunications Corporation**

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

*Years Ended September 30, 2023 and 2022
with Report of Independent Auditors*



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

Financial Statements, Required Supplementary Information,
Supplementary Information, and Compliance and Internal Control

Years Ended September 30, 2023 and 2022

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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 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 years ended September 30, 2023 and 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, 2023 and 2022, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 audits. 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 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 10 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 Corporation's basic financial statements. The Schedule of Operating Expense and Schedule of Expenditures of Federal Awards on pages 35 and 36 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 July 30, 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

July 30, 2024

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

Management's Discussion and Analysis

Years Ended September 30, 2023 and 2022

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 then ended September 30, 2023. 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, 2023. Please read it in conjunction with the financial statements and the notes thereto, which follow this discussion and analysis. Fiscal year 2022 and 2021 comparative information has been included, where appropriate.

The FSMTC is a public corporation of the Federated States of Micronesia National Government and is the primary provider of telecommunications services throughout the Federated States of Micronesia (FSM) and to points outside of the FSM. The FSMTC 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 **6,108** active subscribers (Pohnpei – **3,114**, Chuuk – **803**, Yap – **1,242** & Kosrae – **949**). These numbers had decline 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 **57,531** active subscribers (Pohnpei –**29,946**, Chuuk – **15,550**, Yap –**8,555** & Kosrae –**3,480**).

Federated States of Micronesia Telecommunications Corporation
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Management's Discussion and Analysis, continued

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 **2.40%** of FSMTC's FY2023 operating revenues as compared with **2.57%** of the FSMTC's FY2022 operating revenues. During FY2023, FSMTC realized a **decrease** in overseas and domestic call revenue of **\$14,540** (or **3.51%**) as compared to FY2022. 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 making 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 **41.87%** of FSMTC's FY2023 operating revenues as compared with **41.23%** of FSMTC's FY 2022 operating revenues. During FY2023, FSMTC realized an **increase** in internet service revenues of **\$329,819** (or **4.96%**) as compared to FY2022. 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.

Mobile technology plays a pivotal role in the digital transformation of The Federated States of Micronesia (FSM), enabling access to life enhancing services in areas such as health and education, while proving a catalyst for innovation and economic growth. FSM is seeing only modest mobile subscriber growth at a time when subscriber penetration rates remain well below regional and global developed market averages. FSMTC continues to invest to improving LTE network coverage and speeds. 4G connections are set to account for more than half of total connections by 2025. Faster network speeds and more advanced devices are key to bringing populations online. **Mobile services** account for **44.62%** of FSMTC's FY2023 operating revenues as compared with **44.39%** of FSMTC's FY2022 operating revenues. During FY2023, FSMTC realized an increase in mobile service revenues of **\$261,395** (or **3.64%**) as compared to FY2022. With the opening of the boarder in August 1, 2022 inbound roaming started to pick up slowly at the beginning of the fiscal year and had picked up towards the end of the fiscal year. 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..

Net inbound carrier (external carriers) revenue account for **0.70%** of FSMTC's FY2023 operating revenues as compared with **0.77%** of FSMTC's FY2022 operating revenues. During FY2023, FSMTC realized a **decrease** in net carrier revenues of **-\$7,155** (or **-5.75%**) as compared to FY2022. The huge drop in settlement revenue can be attributed to upgrades on OTTs on internet such as Skype, Facebook messenger, Viber, WeChat, WhatsApp, etc.

Federated States of Micronesia Telecommunications Corporation
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Management's Discussion and Analysis, continued

Statement of Net Position

The statement of net assets 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 FY2023, FY2022 and FY2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets:			
Cash and cash equivalents	\$ 4,707,497	\$ 5,354,028	\$ 4,226,100
TCDs and investments in securities	2,183,540	1,857,689	2,327,001
Receivables and prepayments	2,076,335	1,568,763	2,602,491
Inventory	<u>1,475,964</u>	<u>1,269,054</u>	<u>1,219,811</u>
Total current assets	10,443,336	10,049,534	10,375,403
Advance payment to vendor	283,407	172,422	1,486,555
Property, plant and equipment	26,307,065	26,899,991	28,113,694
Other non-current assets	<u>1,849,624</u>	<u>2,032,900</u>	<u>2,162,403</u>
Total assets	<u><u>\$38,883,432</u></u>	<u><u>\$39,154,847</u></u>	<u><u>\$42,138,055</u></u>
Liabilities:			
Current liabilities	\$ 5,424,199	\$ 4,677,355	\$ 5,515,185
Non-current liabilities	<u>6,647,846</u>	<u>7,696,319</u>	<u>8,722,355</u>
Total liabilities	<u>12,072,045</u>	<u>12,373,674</u>	<u>14,237,540</u>
Net position:			
Net investment in capital assets	20,453,778	20,181,713	20,551,657
Unrestricted	<u>6,357,609</u>	<u>6,599,460</u>	<u>7,348,858</u>
Total net position	<u>26,811,387</u>	<u>26,781,173</u>	<u>27,900,515</u>
Total liabilities and net position	<u><u>\$38,883,432</u></u>	<u><u>\$39,154,847</u></u>	<u><u>\$42,138,055</u></u>

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Management's Discussion and Analysis, continued

The total liabilities of FSMTC had **decreased** by **2.44%**. The equity of FSMTC was affected by the change in both assets and liabilities and net **profit** from operations & non-operations totaling **\$30,214**.

During FY2023, 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 **\$3,907,866** as compared with **\$4,975,218** in FY2022.

The cash and cash equivalents at the end of FY2023 are **\$4,707,497** as compared to **\$5,354,028** at the end of the prior year. The **decrease** in cash and cash equivalents can be attributed to mobile infrastructure build out all over the FSM.

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.

Federated States of Micronesia Telecommunications Corporation
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Management's Discussion and Analysis, continued

The following table summarizes the financial operations of the FSMTC for the years ended September 30, 2023, 2022 and 2021.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues, net	\$16,651,768	\$16,137,246	\$17,244,475
Operating expenses	<u>(16,785,331)</u>	<u>(16,950,099)</u>	<u>(16,572,983)</u>
Net operating (loss) income	<u>(133,563)</u>	<u>(812,853)</u>	<u> 671,492</u>
Investment gain (loss), net	328,107	(427,347)	304,344
Interest expense	(164,330)	(185,612)	(384,427)
Other non-operating income	---	206,470	---
RUS loan forgiveness	<u>---</u>	<u>---</u>	<u>8,209,255</u>
Net non-operating income (loss), net	<u>163,777</u>	<u>(406,489)</u>	<u>8,129,172</u>
Capital grants	<u>---</u>	<u>100,000</u>	<u>31,000</u>
Change in net position	30,214	(1,119,342)	8,831,664
Net position beginning of year	<u>26,781,173</u>	<u>27,900,515</u>	<u>19,068,851</u>
Net position, end of year	<u>\$26,811,387</u>	<u>\$26,781,173</u>	<u>\$27,900,515</u>

Net operating revenue in FY2023 **increased** by **\$514,522** (or **3.19%**) compared to FY2022. The revenue increase can be attributed to inbound roaming. Operating expenses in FY2023 **decreased** by **\$164,768** (or **0.97%**) compared to FY2022 operating expenses.

The FSMTC investments in property, plant and equipment, net of accumulated depreciation, amounted to **\$26,307,065** in FY2023 and **\$26,899,991** in FY2022. This decrease of **\$592,926** (or **2.20%**) is primarily due to depreciation expenses & retirement of fixed assets. For additional information concerning capital assets, please refer to note 4 to the accompanying financial statements.

FSMTC's notes payable with the US Department of Agriculture (Rural Utilities Services) amounted to **\$7,691,186** at the end of FY23. For additional information concerning the FSMTC's long term debt, please refer to note 7 to the accompanying financial statements.

Federated States of Micronesia Telecommunications Corporation
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Management's Discussion and Analysis, continued

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.

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.

Federated States of Micronesia Telecommunications Corporation
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Management's Discussion and Analysis, continued

According to the Asian Development Bank (ADB), the Federated States of Micronesia's (FSM) GDP growth is expected to be 3.1% in 2024 and 2.8% in 2025. The IMF also projects a 3.1% real GDP change in 2024, along with a 4.1% change in consumer prices. The IMF also expects short-term economic prospects to improve due to increased public spending and a potential renewal of the Compact of Free Association (COFA) with the United States.

Management's Discussion and Analysis for the year ended September 30, 2022 is set forth in FSMTC'S report on the audit of financial statements, which is dated March 13, 2024. That Discussion and Analysis explains the major factors impacting the 2022 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 (fredy.perman@fsmtc.fm) or Rodelio A. Pulmano, Senior Vice President/CFO (rodelio.pulmano@fsmtc.fm), or please write to us at P.O. Box 1210, Kolonia, Pohnpei FM 96941.

Federated States of Micronesia Telecommunications Corporation
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Statements of Net Position

	September 30, <u>2023</u>	<u>2022</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,707,497	\$ 5,354,028
Time certificates of deposit	279,494	279,494
Investment in securities	1,904,046	1,578,195
Accounts receivable, net of an allowance for doubtful accounts of \$966,506 and \$919,107 in 2023 and 2022, respectively	547,109	440,578
Receivables from international carriers	295,097	46,684
Other receivables	20,094	22,943
Inventory	1,475,964	1,269,054
Accrued interest and other accrued earnings	150,192	138,062
Prepaid expenses and other current assets	<u>1,063,843</u>	<u>920,496</u>
Total current assets	10,443,336	10,049,534
Other receivables, net of an allowance for doubtful accounts of \$2,232,143 and \$2,301,467 in 2023 and 2022, respectively	11,725	32,749
Advance payment to vendor	283,407	172,422
Capital assets:		
Non-depreciable capital assets	4,772,509	4,292,136
Capital assets, net of accumulated depreciation	21,534,556	22,607,855
Indefeasible right of use, net	<u>1,837,899</u>	<u>2,000,151</u>
	<u>\$38,883,432</u>	<u>\$39,154,847</u>
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 1,043,340	\$ 1,022,110
Accounts payable, trade	22,023	397,756
Unearned income	511,644	184,222
Customer deposits	479,553	419,070
Accrued leave payable	134,690	144,797
Other accrued liabilities	<u>3,232,949</u>	<u>2,509,400</u>
Total current liabilities	5,424,199	4,677,355
Long-term debt, net of current portion	<u>6,647,846</u>	<u>7,696,319</u>
Total liabilities	<u>12,072,045</u>	<u>12,373,674</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	20,453,778	20,181,713
Unrestricted	<u>6,357,609</u>	<u>6,599,460</u>
Total net position	<u>26,811,387</u>	<u>26,781,173</u>
	<u>\$38,883,432</u>	<u>\$39,154,847</u>

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,	
	<u>2023</u>	<u>2022</u>
Operating revenues:		
Mobile charges	\$ 7,425,195	\$ 7,163,800
Internet	6,982,656	6,652,837
Net access	2,277,674	2,175,398
Overseas tolls	399,811	414,351
External carriers	117,182	124,337
Miscellaneous	85,038	127,029
ICTV Pohnpei cable charges	20,467	29,853
ICTV Chuuk cable charges	15,671	19,512
ICTV Kosrae cable charges	15,340	25,439
ICTV Yap cable charges	3,141	6,607
Discounts	(652,139)	(623,628)
	16,690,036	16,115,535
Bad debts (expense) recovery	(38,268)	21,711
Net operating revenues	16,651,768	16,137,246
Operating expenses:		
Corporate operations	3,377,326	3,124,087
Consumer operations	2,506,569	2,756,938
Internet expense	2,501,912	2,499,015
Plant operations	2,164,465	2,214,717
Cable and wire	1,810,820	1,809,347
General support	1,566,658	1,419,582
Wireless and telephone	1,544,541	1,640,089
Terminal equipment	674,418	690,170
Central office	323,892	370,414
ICTV expense	163,973	215,546
Earth station	<u>150,757</u>	<u>210,194</u>
Total operating expenses	<u>16,785,331</u>	<u>16,950,099</u>
Loss from operations	(133,563)	(812,853)

See accompanying notes.

Federated States of Micronesia Telecommunications Corporation
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Statements of Revenues, Expenses, and Changes in Net Position, continued

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Nonoperating revenues (expenses):		
Net change in fair value of investments	328,107	(427,347)
Interest expense	(164,330)	(185,612)
Other non-operating income	<u>---</u>	<u>206,470</u>
Total nonoperating revenues (expenses), net	<u>163,777</u>	<u>(406,489)</u>
Income (loss) before capital contributions	<u>30,214</u>	<u>(1,219,342)</u>
Capital contributions	<u>---</u>	<u>100,000</u>
Change in net position	30,214	(1,119,342)
Net position at beginning of year	<u>26,781,173</u>	<u>27,900,515</u>
Net position at end of year	<u>\$26,811,387</u>	<u>\$26,781,173</u>

See accompanying notes.

Federated States of Micronesia Telecommunications Corporation
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Statements of Cash Flows

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from subscribers, long distance carriers and other customers	\$16,635,989	\$16,055,979
Cash paid to suppliers for goods and services	(8,640,134)	(7,295,030)
Cash paid to employees	(4,087,989)	(3,785,731)
Net cash provided by operating activities	<u>3,907,866</u>	<u>4,975,218</u>
Cash flows from capital and related financing activities:		
Capital contributions received from FSM National Government	---	100,000
Additions to property, plant and equipment	(3,365,080)	(2,797,632)
Repayments of long-term debt	(1,027,243)	(1,006,011)
Interest paid on long-term debt	(164,523)	(185,753)
Net cash used in capital and related financing activities	<u>(4,556,846)</u>	<u>(3,889,396)</u>
Cash flows from investing activities:		
Net purchases, sales and maturities of investments	2,256	41,999
Interest and dividends	<u>193</u>	<u>107</u>
Net cash provided by investing activities	<u>2,449</u>	<u>42,106</u>
Net change in cash and cash equivalents	(646,531)	1,127,928
Cash and cash equivalents at beginning of year	<u>5,354,028</u>	<u>4,226,100</u>
Cash and cash equivalents at end of year	<u>\$ 4,707,497</u>	<u>\$ 5,354,028</u>

See accompanying notes.

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

Statement of Cash Flows, continued

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$(133,563)	\$(812,853)
Non-operating income	---	206,470
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	4,120,258	4,173,587
(Increase) decrease in assets:		
Accounts receivable	(106,531)	11,036
Receivables from international carriers	(248,413)	16,025
Other receivables	23,873	(55,828)
Inventory	(206,910)	(49,243)
Accrued interest and other accrued earnings	(12,130)	57,963
Prepaid expenses and other current asset	(143,347)	970,638
Advance payment to vendor	(110,985)	1,314,133
Increase (decrease) in liabilities:		
Accounts payable, trade	(375,733)	169,040
Unearned income	327,422	(110,463)
Customer deposits	60,483	(1,653,735)
Accrued leave payable	(10,107)	28,603
Other accrued liabilities	<u>723,549</u>	<u>709,845</u>
Net cash provided by operating activities	\$ <u>3,907,866</u>	\$ <u>4,975,218</u>

See accompanying notes.

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

Notes to Financial Statements

Years Ended September 30, 2023 and 2022

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.

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

Notes to Financial Statements, continued

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, 2023 and 2022.
- 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 (i.e., 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.

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

Notes to Financial Statements, continued

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, 2023 and 2022, 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.

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

Notes to Financial Statements, continued

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, 2023 and 2022, the FSM National Government assessed the Corporation of GRT of \$386,378 and \$317,408, 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, 2023 and 2022, 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 \$282,335 and \$292,165, 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.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Recently Adopted 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. The adoption of GASB Statement No. 91 did not result in a material effect on the accompanying financial statements.

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. The adoption of GASB Statement No. 94 did not result in a material effect on the accompanying financial statements.

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. The adoption of GASB Statement No. 96 did not result in a material effect on the accompanying financial statements.

In April 2022, GASB issued Statement No. 99, Omnibus 2022. This statement provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:

- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives. This implementation did not have a material effect on the accompanying financial statements.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- Provides clarification of provisions in GASB Statement No. 94 related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. This implementation did not have a material effect on the accompanying financial statements.
- Provides clarification of provisions in GASB Statement No. 96 related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. This implementation did not have a material effect on the accompanying financial statements.
- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. This implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.

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.

Federated States of Micronesia Telecommunications Corporation
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Notes to Financial Statements, continued

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.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 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.

Reclassification

Certain reclassifications have been made to the 2022 statement of net position for comparative purposes. Such reclassifications have no effect on the previously reported net position or changes in net position for the year ended September 30, 2022.

Federated States of Micronesia Telecommunications Corporation
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Notes to Financial Statements, continued

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.

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, 2023 and 2022, the carrying amount of the Corporation's total cash and cash equivalents and time certificates of deposit was \$4,986,991 and \$5,633,522, respectively, and the corresponding bank balances were \$4,744,295 and \$5,584,966, respectively, all of which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2023 and 2022, bank deposits in the amount of \$416,506 and \$417,323, 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.

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

Notes to Financial Statements, continued

3. Deposits and Investments, continued

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, 2023 and 2022, 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."

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, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*, 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, 2023 and 2022, 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, 2023 and 2022, investments at fair value are as follows:

	<u>2023</u>	<u>2022</u>
Fixed income:		
U.S Treasury obligations	\$ 183,111	\$ 212,105
Corporate notes	<u>201,282</u>	<u>166,823</u>
	384,393	378,928
Other investments:		
Domestic and international equities	1,500,638	1,178,447
Real estate and tangibles	<u>19,015</u>	<u>20,820</u>
	<u>\$1,904,046</u>	<u>\$1,578,195</u>

Federated States of Micronesia Telecommunications Corporation
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Notes to Financial Statements, continued

3. Deposits and Investments, continued

Investments, continued

As of September 30, 2023, the Corporation's investments in debt securities were as follows:

	Moody's Credit Rating	Investment maturities (in Years)				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	AAA	\$9,896	\$101,191	\$72,024	\$ ---	\$183,111
Corporate notes	A1	---	30,638	28,491	---	59,129
Corporate notes	A2	8,555	11,634	---	---	20,189
Corporate notes	A3	---	9,652	36,024	---	45,676
Corporate notes	AA2	---	---	6,709	---	6,709
Corporate notes	AA3	---	---	8,833	---	8,833
Corporate notes	BAA1	9,666	20,665	---	---	30,331
Corporate notes	BAA2	<u>18,978</u>	<u>11,437</u>	<u>---</u>	<u>---</u>	<u>30,415</u>
		<u>\$47,095</u>	<u>\$185,217</u>	<u>\$152,081</u>	<u>\$ ---</u>	<u>\$384,393</u>

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

	Moody's Credit Rating	Investment maturities (in Years)				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
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	<u>---</u>	<u>30,320</u>	<u>---</u>	<u>---</u>	<u>30,320</u>
		<u>\$29,686</u>	<u>\$264,428</u>	<u>\$84,814</u>	<u>\$ ---</u>	<u>\$378,928</u>

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.

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

Notes to Financial Statements, continued

3. Deposits and Investments, continued

Investments, continued

The Corporation has the following recurring fair value measurements as of September 30, 2023 and 2022:

		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)
	September 30, 2023			
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 183,111	\$ ---	\$183,111	\$ ---
Corporate notes	<u>201,282</u>	<u>---</u>	<u>201,282</u>	<u>---</u>
Total fixed income	<u>384,393</u>	<u>---</u>	<u>384,393</u>	<u>---</u>
Equity securities:				
U.S. equities	1,189,491	1,189,491	---	---
Non U.S. equities	<u>311,147</u>	<u>311,147</u>	<u>---</u>	<u>---</u>
Total equity securities	<u>1,500,638</u>	<u>1,500,638</u>	<u>---</u>	<u>---</u>
Real estate and tangibles	<u>19,015</u>	<u>---</u>	<u>19,015</u>	<u>---</u>
Total investments by fair value level	<u>\$1,904,046</u>	<u>\$1,500,638</u>	<u>\$403,408</u>	<u>\$ ---</u>
		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)
	September 30, 2022			
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 212,105	\$ ---	\$212,105	\$ ---
Corporate notes	<u>166,823</u>	<u>---</u>	<u>166,823</u>	<u>---</u>
Total fixed income	<u>378,928</u>	<u>---</u>	<u>378,928</u>	<u>---</u>
Equity securities:				
U.S. equities	919,828	919,828	---	---
Non U.S. equities	<u>258,619</u>	<u>258,619</u>	<u>---</u>	<u>---</u>
Total equity securities	<u>1,178,447</u>	<u>1,178,447</u>	<u>---</u>	<u>---</u>
Real estate and tangibles	<u>20,820</u>	<u>---</u>	<u>20,820</u>	<u>---</u>
Total investments by fair value level	<u>\$1,578,195</u>	<u>\$1,178,447</u>	<u>\$399,748</u>	<u>\$ ---</u>

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

Notes to Financial Statements, continued

4. Capital Assets

Capital asset activities of the Corporation for the years ended September 30, 2023 and 2022 are as follows:

	Estimated Useful Lives	Balance October 1, 2022	Additions	Retirements	Balance September 30, 2023
General support	5-35 years	\$ 17,389,229	\$ 624,194	\$(135,456)	\$ 17,877,967
Central office	20 years	12,408,551	9,022	(199,966)	12,217,607
Earth station	20 years	1,843,953	200,451	(10,909)	2,033,495
Terminal equipment	5-20 years	4,118,233	106,511	(32,414)	4,192,330
Cellular network	10-20 years	24,446,743	830,770	(107,421)	25,170,092
Internet equipment	8 years	3,837,920	1,640	(52,936)	3,786,624
Pole, cable and wiring	15-20 years	<u>48,275,520</u>	<u>1,112,119</u>	<u>---</u>	<u>49,387,639</u>
Total		112,320,149	2,884,707	(539,102)	114,665,754
Accumulated depreciation		(89,712,294)	(3,958,006)	<u>539,102</u>	(93,131,198)
Depreciable assets, net		<u>22,607,855</u>	<u>(1,073,299)</u>	<u>---</u>	<u>21,534,556</u>
Land		550,000	---	---	550,000
Plant under construction		<u>3,742,136</u>	<u>480,373</u>	<u>---</u>	<u>4,222,509</u>
Non-depreciable total		<u>4,292,136</u>	<u>480,373</u>	<u>---</u>	<u>4,772,509</u>
Capital assets, net		\$ <u>26,899,991</u>	\$(<u>592,926</u>)	\$(<u>---</u>)	\$ <u>26,307,065</u>

	Estimated Useful Lives	Balance October 1, 2021	Additions	Retirements	Balance September 30, 2022
General support	5-35 years	\$ 16,822,407	\$ 687,822	\$(121,000)	\$ 17,389,229
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	<u>47,948,181</u>	<u>372,521</u>	<u>(45,182)</u>	<u>48,275,520</u>
Total		111,139,714	1,346,617	(166,182)	112,320,149
Accumulated depreciation		(85,867,141)	(4,011,335)	<u>166,182</u>	(89,712,294)
Depreciable assets, net		<u>25,272,573</u>	<u>(2,664,718)</u>	<u>---</u>	<u>22,607,855</u>
Land		550,000	---	---	550,000
Plant under construction		<u>2,291,121</u>	<u>1,451,015</u>	<u>---</u>	<u>3,742,136</u>
Non-depreciable total		<u>2,841,121</u>	<u>1,451,015</u>	<u>---</u>	<u>4,292,136</u>
Capital assets, net		\$ <u>28,113,694</u>	\$(<u>1,213,703</u>)	\$(<u>---</u>)	\$ <u>26,899,991</u>

Federated States of Micronesia Telecommunications Corporation
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Notes to Financial Statements, continued

5. Infeasible 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, 2023 and 2022, the Corporation's IRUs are as follows:

	<u>2023</u>	<u>2022</u>
Cost	\$3,896,301	\$3,896,301
Accumulated amortization	<u>(2,058,402)</u>	<u>(1,896,150)</u>
IRU, net	<u>\$1,837,899</u>	<u>\$2,000,151</u>

Federated States of Micronesia Telecommunications Corporation
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Notes to Financial Statements, continued

6. Long-term Debt

Long-term debt at September 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Loans payable to RUS, with a 35-year term, interest at 5% per annum, collateralized by the Corporation's specific ground leases and essentially all other assets. Pursuant to loan agreements dated August 1, 1990 and March 12, 2009, the Corporation is required to make monthly payments of both principal and interest to RUS. The loans were originally in the amounts of \$32,000,000 and \$12,136,000 and the proceeds were used for capital related purposes. 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.	\$7,691,186	\$8,718,429
Less current portion of long term debt	<u>1,043,340</u>	<u>1,022,110</u>
Long term debt, net of current portion	<u>\$6,647,846</u>	<u>\$7,696,319</u>

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$1,043,340	\$141,542	\$1,184,882
2025	1,063,237	121,645	1,184,882
2026	1,084,401	100,481	1,184,882
2027	1,105,986	78,896	1,184,882
2028	1,128,002	56,880	1,184,882
2029-2030	<u>2,266,220</u>	<u>50,430</u>	<u>2,316,650</u>
	<u>\$7,691,186</u>	<u>\$549,874</u>	<u>\$8,241,060</u>

Federated States of Micronesia Telecommunications Corporation
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Notes to Financial Statements, continued

6. Long-term Debt, continued

A summary of changes in long-term debt for the years ended September 30, 2023 and 2022 are as follows:

	Balance <u>October 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>September 30, 2023</u>	Due Within <u>One Year</u>
Notes payable:					
Rural Utilities Service	\$8,718,429	\$ <u>---</u>	\$(1,027,243)	\$7,691,186	\$1,043,340
	Balance <u>October 1, 2021</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>September 30, 2022</u>	Due Within <u>One Year</u>
Notes payable:					
Rural Utilities Service	\$9,724,440	\$ <u>---</u>	\$(1,006,011)	\$8,718,429	\$1,022,110

7. Commitments and Contingencies

Operating Leases

The Corporation has various operating leases as of September 30, 2023. 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:

<u>Year ending September 30,</u>	
2024	\$ 3,628
2025	3,628
2026	3,628
2027	3,628
2028	3,628
2029-2031	<u>10,884</u>
 Total future lease payments	 <u>\$29,024</u>

For each of the years ended September 30, 2023 and 2022, operating expense recorded under the operating lease agreements totaled \$19,889.

Federated States of Micronesia Telecommunications Corporation
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Notes to Financial Statements, continued

7. Commitments and Contingencies, continued

Circuit Service Agreements

The Corporation has also entered into various service agreements, expiring through 2033, 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:

<u>Year ending September 30,</u>	
2024	\$ 1,668,331
2025	1,329,456
2026	1,329,456
2027	1,329,456
2028	1,329,456
2029-2033	<u>4,990,688</u>
Total future contract payments	<u>\$11,976,843</u>

During the years ended September 30, 2023 and 2022, operating expense recorded under the circuit service agreements totaled \$1,482,181 and \$1,413,234, 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%.

Federated States of Micronesia Telecommunications Corporation
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Notes to Financial Statements, continued

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 \$4,933,000 is outstanding under these contracts as of September 30, 2023.

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.

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

Notes to Financial Statements, continued

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 year ended September 30, 2022, the Corporation received capital contributions and operating subsidies of \$100,000 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. For each of the years ended September 30, 2023 and 2022, the Corporation recognized expenses of \$782,736 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, 2023 and 2022, unpaid charges for services provided amounted to \$2,739,576 and \$1,956,840, respectively, which 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 \$2,243,868 and \$2,231,620 as of September 30, 2023 and 2022, respectively, net of an allowance for doubtful accounts of \$2,232,143 and \$2,231,620, respectively, which is included in other non-current receivables in the accompanying financial statements.

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.

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

Notes to Financial Statements, continued

8. Related Party Transactions, Continued

Cable System in Chuuk and Yap State, Continued

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 is to 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. Accordingly, the Corporation paid the cash bond amounting to \$2.8 million on October 18, 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, 2023 and 2022 were \$270,703 and \$265,422, respectively, and employee contributions were \$176,395 and \$184,319, respectively.

Although the Plan does not accumulate assets in a trust where Plan assets are legally protected from the creditors of the Corporation and the plan administrator, the Corporation has concluded that the activities of the Plan are not fiduciary activities of the Corporation as the participants have the right to direct the exchange and the right to direct the employment of the Plan assets, which totaled \$3,915,493 and \$3,183,583 at September 30, 2023 and 2022, 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 other non-operating income in the accompanying 2022 statement of revenues, expenses, and changes in net position.

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,	
	<u>2023</u>	<u>2022</u>
Depreciation and amortization	\$ 4,120,258	\$ 4,173,587
Salaries and wages	4,077,882	4,020,804
Circuit lease	1,482,181	1,413,234
Cost of sales	1,596,709	1,929,558
Utilities	1,303,106	1,399,710
Repairs and maintenance	1,081,802	1,198,445
OAE	782,736	782,736
Taxes	642,536	629,031
Travel	251,667	27,263
Rental expenses	207,728	213,195
Petroleum and lubricants	213,896	177,964
Supplies	120,582	155,317
Contractual services	104,414	103,501
Advertising	95,147	60,415
Freight	85,961	98,253
Communication	84,429	89,450
ICTV Affiliated	83,764	75,546
Insurance	67,169	55,211
Professional fees	55,902	84,639
Training	52,982	22,355
Representation	33,788	22,329
Land lease	27,105	21,015
Publications and printing	26,356	24,249
Miscellaneous	<u>187,231</u>	<u>172,292</u>
	<u>\$16,785,331</u>	<u>\$16,950,099</u>

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, 2023

U.S. Department of Agriculture

Rural Utilities Service Loan Funding:

<u>Approved Purposes</u>	Loan Proceeds Approved as of September 30, 2023	Total Disbursements as of September 30 2023	Loan Proceeds Received During FY 2023	Total Disbursements on Contracts During FY 2023
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)	---	---
	<u>\$52,331,958</u>	<u>\$52,094,767</u>	<u>\$ ---</u>	<u>\$ ---</u>

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.

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, 2023, 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 July 30, 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

July 30, 2024