

*Financial Statements and  
Required Supplementary Information*

**Federated States of Micronesia  
Telecommunications Regulation Authority**

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

Financial Statements and Required Supplementary Information

Years Ended September 30, 2023 and 2022

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## Report of Independent Auditors

Board of Directors

Federated States of Micronesia Telecommunication Regulation Authority:

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the business-type activities of Federated States of Micronesia (FSM) Telecommunication Regulation Authority (the Authority), 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 Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of September 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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

#### *Responsibilities of Management for the Financial Statements*

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

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

## *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2024, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Ernst + Young LLP*

October 31, 2024

Federated States of Micronesia  
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Management's Discussion and Analysis

Years Ended September 30, 2023 and 2022

The following Discussion and Analysis of the Telecommunication Regulation Authority (TRA) is to provide an introduction and understanding of the basic financial statements of TRA for the fiscal years ended September 30, 2023 and 2022. This discussion has been prepared by management and should be read in conjunction with the financial statements.

This annual report consists of two parts:

1. Management Discussion and Analysis
2. Basic Financial Statements

The basic financial statements include the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position and the Statements of Cash Flows. For TRA activities, these statements tell how these services were financed during fiscal year 2023.

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

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

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

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

The following table summarizes the financial condition of TRA for the years ended September 30, 2023, 2022 and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets:			
Cash	\$ 87,845	\$168,765	\$226,401
Accounts receivable	12,855	---	65,177
Prepaid expense	---	12,855	---
Capital assets, net of accumulated depreciation	23,275	32,568	24,330
Right-to-use Lease Asset	<u>27,401</u>	<u>16,757</u>	<u>---</u>
	<u>\$151,376</u>	<u>\$230,945</u>	<u>\$315,908</u>

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Management's Discussion and Analysis, continued

Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Liabilities:	\$ 42,689	\$ 26,949	\$ 70,096
Net position	<u>108,687</u>	<u>203,996</u>	<u>245,812</u>
Total Liabilities and Equity	\$ <u>151,376</u>	\$ <u>230,945</u>	\$ <u>315,908</u>
Revenues	\$ 314,064	\$ 300,940	\$288,483
Contributed revenues	1,760	34,310	424,836
Other income	10	---	---
Interest expense, net	( 450)	( 60)	---
Operating expenses	<u>(410,693)</u>	<u>(377,006)</u>	<u>(631,808)</u>
Decrease in net position	\$( <u>95,309</u> )	\$( <u>41,816</u> )	\$ <u>81,511</u>

Total operating revenues for FY2023 were \$314,064, reflecting a modest increase of 4% compared to the previous year's total of \$300,940. In contrast, total operating expenses rose by 8.9%, from \$377,006 to \$410,693.

The significant increase in expenses was primarily driven by a nearly doubling of travel expenses, which surged from \$29,344 in FY2022 to \$58,366 in FY2023. This surge was largely due to officers attending international and regional conferences, as well as field trips to other states in the FSM.

After experiencing deficits for three consecutive years, management has decided to explore accessing World Bank funding again to cover consultancy service expenses, which account for 33% of total expenses.

One of the objectives of the TRA is to promote the entry of new licensees, fostering investment and innovation in communications networks and services. However, there has been little interest from international or regional telecommunications providers in entering the FSM, with the exception of Kacific, a satellite ISP provider. Another satellite ISP provider, Starlink, has been in contact with the TRA and has expressed interest in operating in the FSM. We anticipate granting their operator's license sometime in FY2024.

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

In March 2021, TRA contracted an external consultant to assist TRA in establishing spectrum database, training internal staff in the field of spectrum monitoring/management. The consultant is being paid by the license fees received from the licensed operators as well. In September 2021, TRA and the external consultant for the governance agreed not to renew his contract which expired in January 2022. Also, TRA and the external consultant for the regulatory assistance agreed that

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Management's Discussion and Analysis, continued

Years Ended September 30, 2023 and 2022

the consultant would no longer be paid by the grant money provided by the World Bank effective October 1, 2021. Instead, the consultant would be paid by the TRA from the revenues received from the licensed operators.

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

Management's Discussion and Analysis for the year ended September 30, 2022 is set forth in TRA's report on the audit of financial statements, which is dated November 10, 2023. That Discussion and Analysis explains the major factors impacting the 2022 financial statements and can be viewed at TRA's website at [www.tra.fm](http://www.tra.fm) or Office of the National Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

**Financial Contact**

This financial report is designed to provide all interested users with a general overview of the Federated States of Micronesia Telecommunications Regulation Authority. If you have questions about this report or need additional financial information, please contact Takuro Akinaga, Chief Executive at email address [takuro.akinaga@tra.fm](mailto:takuro.akinaga@tra.fm) or please write to us at P.O. Box 1919, Kolonia, Pohnpei FM 96941.



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Statements of Net Position

	September 30, <u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 87,845	\$168,765
Accounts receivable	12,855	---
Prepaid expense	<u>---</u>	<u>12,855</u>
Total current assets	100,700	181,620
Capital assets, net of accumulated depreciation	23,275	32,568
Lease asset	<u>27,401</u>	<u>16,757</u>
	<u>\$151,376</u>	<u>\$230,945</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Accounts payable	\$ 8,442	\$ 3,397
Other accrued liabilities	6,707	6,777
Lease liability	<u>17,183</u>	<u>16,775</u>
Total current liabilities	32,332	26,949
Lease liability, non-current	<u>10,357</u>	<u>---</u>
	<u>42,689</u>	<u>26,949</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	23,276	32,568
Unrestricted	<u>85,411</u>	<u>171,428</u>
Total net position	<u>108,687</u>	<u>203,996</u>
	<u>\$151,376</u>	<u>\$230,945</u>

*See accompanying notes.*

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Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended September 30,	
	<u>2023</u>	<u>2022</u>
Total operating revenues	\$ <u>314,064</u>	\$ <u>300,940</u>
Operating expenses:		
Consultancy	153,679	167,394
Payroll related	137,838	132,366
Travel	58,366	29,344
Lease expense	18,382	16,757
Depreciation	10,598	11,571
Utilities	2,572	3,195
Telecommunication	1,644	1,759
Miscellaneous	<u>27,614</u>	<u>14,620</u>
Total operating expenses	<u>410,693</u>	<u>377,006</u>
Loss from operations	( <u>96,629</u> )	( <u>76,066</u> )
Nonoperating revenues (expenses):		
World Bank contribution	1,760	34,310
Other income	10	---
Interest expense, net	( <u>450</u> )	( <u>60</u> )
Nonoperating revenues, net	<u>1,320</u>	<u>34,250</u>
Change in net position	( 95,309 )	( 41,816 )
Net position at beginning of year	<u>203,996</u>	<u>245,812</u>
Net position at end of year	<u>\$108,687</u>	<u>\$203,996</u>

*See accompanying notes.*

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Statements of Cash Flows

	Years Ended September 30,	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers	\$ 301,219	\$ 235,763
Cash paid to suppliers for goods and services	(243,552)	(174,267)
Cash paid to employees	(139,042)	(133,635)
Net cash used in operating activities	( 81,375)	( 72,139)
Cash flows from noncapital financing activities -		
Operating subsidy received from World Bank	<u>1,760</u>	<u>34,310</u>
Cash flows from capital and related financing activities -		
Additions to property, plant and equipment	( 1,305)	( 19,809)
Cash received from other income	<u>---</u>	<u>2</u>
Net cash used in capital and related financing activities	( 1,305)	( 19,807)
Net change in cash and cash equivalents	( 80,920)	( 57,636)
Cash and cash equivalents at beginning of year	<u>168,765</u>	<u>226,401</u>
Cash and cash equivalents at end of year	\$ <u>87,845</u>	\$ <u>168,765</u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$( 96,629)	\$( 76,066)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation and amortization	10,598	11,571
Noncash operating lease expense	18,382	---
Other income	10	---
Interest expense	---	( 62)
Decrease (Increase) in assets:		
Accounts receivable	( 12,855)	65,177
Prepaid expense	12,855	( 12,855)
Right-of-use lease asset	---	( 16,757)
(Decrease) Increase in liabilities:		
Accounts payable	5,045	( 59,909)
Lease liability	( 18,711)	16,775
Other accrued liabilities	( 70)	( 13)
Net cash used in operating activities	\$( <u>81,375</u> )	\$( <u>72,139</u> )
Supplementary disclosure of noncash investing and financing activities:		
Initial recognition of right-of-use lease asset	\$ <u>34,612</u>	\$ <u>33,513</u>
Initial recognition of lease liability	\$ <u>34,612</u>	\$ <u>33,513</u>

*See accompanying notes.*

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Notes to Financial Statements

Years Ended September 30, 2023 and 2022

**1. Organization**

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

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

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The Authority maintains a chart of accounts in accordance with accounting principles generally accepted in the United States of America (GAAP). Additionally, the Authority utilizes the accrual basis of accounting.

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

- *Net investment in capital assets* - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted* - net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. The Authority has no restricted net position at September 30, 2023.
- *Unrestricted* - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Accounting Estimates**

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

**Cash and Cash Equivalents**

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

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

As of September 30, 2023 and 2022, the cash balance was \$87,845 and \$168,765, respectively, and the corresponding bank balance was \$87,845 and \$168,365, respectively, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2023 and 2022, bank deposits were fully subject to the FDIC insurance coverage limit.

**Accounts Receivable**

Accounts receivable are primarily reimbursements due from funding agencies, stated at the amount management expects to collect on outstanding balances.

**Capital Assets**

Capital assets are stated at cost. The Authority capitalizes buildings, land improvements and equipment that have a cost of \$150 or more and an estimated useful life of at least two years. The cost of maintenance and repairs is charged to operating expenses. Depreciation is calculated on the straight-line method over the estimated useful lives of the respective assets.

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Deferred Outflows of Resources**

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

**Compensated Absences**

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

**Deferred Inflows of Resources**

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

**Income Taxes**

The Authority is specifically exempt from FSM Corporate and gross receipts taxes in accordance with its enabling legislation.

**Operating and Nonoperating Revenues and Expenses**

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

**Revenue Recognition**

The Authority primarily earns revenue through assessments of license application fees, license renewal fees and annual fees by licensees. During the years ended September 30, 2023 and 2022, operating revenues were primarily earned from the FSM Telecommunications Corporation (FSMTC), a component unit of the FSM National Government at 93% and 97% of total operating revenues, respectively.

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Notes to Financial Statements, continued

**2. 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 have an 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. The adoption of GASB Statement No. 94 did not have an effect on the accompanying financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which 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. The adoption of GASB Statement No. 96 did not have an 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.
- Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, 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.

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

- Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, 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.



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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

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

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain 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. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

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

**3. Grants and Subsidies**

The Authority may receive grants from the United States Government or other foreign governments or organizations either as a direct recipient or as a sub-recipient from the FSM National Government. During the years ended September 30, 2023 and 2022, the Authority received \$1,760 and \$34,310, respectively, in contributions from the World Bank primarily to fund consultancy costs.

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Notes to Financial Statements, continued

**4. Capital Assets**

Capital asset activities of the Authority for the year ended September 30, 2023, are as follows:

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2023</u>
Furniture and fixtures	5 years	\$ 9,702	\$ 269	\$ ---	\$ 9,971
Equipment	3-5 years	26,642	199	---	26,841
Vehicles	8 years	14,500	---	---	14,500
Computer, hardware and software	2-7 years	<u>22,106</u>	<u>837</u>	<u>---</u>	<u>22,943</u>
Total		72,950	1,305	---	74,255
Accumulated depreciation		<u>(40,382)</u>	<u>(10,598)</u>	<u>---</u>	<u>(50,980)</u>
		<u>\$32,568</u>	<u>\$ (9,293)</u>	<u>\$ ---</u>	<u>\$23,275</u>

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

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

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Notes to Financial Statements, continued

**5. Commitments and Contingencies**

**Leases**

The Authority leased office space under a lease effective September 2021 with a fixed monthly lease payment of \$1,400 and expiration of September 2023. In May 2023, at mutual agreement, the lease was terminated without penalty and the Authority entered into a new office lease in a different location. The new lease, effective on May 1, 2023, has a two-year term with a monthly fixed lease payment of \$750.

As of September 30, 2023 and 2022, the Authority's right-of-use lease asset, net of accumulated depreciation and lease liability are as follows:

	<u>2023</u>	<u>2022</u>
Right-of-use lease asset, gross	\$34,612	\$33,514
Accumulated amortization	( 7,211)	(16,757)
Right-of-use lease asset, net	<u>\$27,401</u>	<u>\$16,757</u>
Lease liability	<u>\$27,540</u>	<u>\$16,775</u>

The approximate future minimum annual lease payments payable by the Authority as of September 30, 2023 are:

<u>Year ending September 30,</u>	
2024	\$18,000
2025	<u>10,500</u>
	28,500
Interest	( 960)
	<u>\$27,540</u>

**Self-Insurance**

The Authority purchases insurance to cover risks associated with its vehicles. There have been no significant reductions in coverage, and there have been no settlements in excess of insurance coverage occurred during the years ended September 30, 2023 and 2022.

**Litigation**

In the ordinary course of business, claims may be filed against the Authority. Management has represented that no losses have been filed or are expected to be filed for Authority activity for the years ended September 30, 2023 and 2022.

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

Board of Directors

Federated States of Micronesia Telecommunication Regulation Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia (FSM) Telecommunication Regulation Authority (the Authority), which comprise the statement of net position as of September 30, 2023, and the related statement of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2024.

### Internal Control Over Financial Reporting

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Ernst + Young LLP*

October 31, 2024