

*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, 2025 and 2024
with Report of Independent Auditors*



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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, 2025 and 2024

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Report of Independent Auditors

Board of Directors
Federated States of Micronesia Telecommunications Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Federated States of Micronesia (FSM) Telecommunications Corporation (the Corporation), a component unit of the FSM National Government, as of and for the years ended September 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents (collectively referred to as the "basic financial statements").

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 at September 30, 2025 and 2024, 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 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 be presented to supplement the basic 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 31 and 32 are presented for purposes of additional analysis and are 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 Expenses and Schedule of Expenditures of Federal Awards are 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 January 31, 2026, 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

January 31, 2026

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, 2025 and 2024

The Management's Discussion and Analysis provided by the Federated States of Micronesia Telecommunications Corporation (FSMTC) offers a comprehensive overview of the corporation's financial performance for the fiscal year ended September 30, 2025. This analysis is intended to give readers a better understanding of the basic financial statements, including comparative data from fiscal years 2024 and 2023, where relevant. This also offers relevant background information for better context and understanding. FSMTC's management has prepared this overview to facilitate the interpretation of the corporation's financial activities.

Overview of FSMTC

FSMTC operates as a public corporation under the Federated States of Micronesia (FSM) National Government and serves as the primary and largest telecommunications provider for the nation. This includes both domestic services within the FSM and connections to locations outside the country. FSMTC operates under the governance of a five-member Board of Directors, appointed by the President of the FSM and the Governor of each State. The Board exercises oversight over FSMTC, including its operations related to Cable TV in Kosrae and IPTV in Pohnpei, Yap and Chuuk.

Additionally, the President and Chief Executive Officer (CEO) of FSMTC serves as an ex-officio, non-voting member of the Board. This ensures that the executive leadership remains involved in the strategic discussions while allowing the board to maintain its independent decision-making authority. The structure is designed to promote accountability and effective governance across FSMTC's operations.

Submarine Fiber Optic Connections

The submarine fiber optic cable systems have been vital for improving connectivity in the FSM. Pohnpei's initial connection via the HANTRU-1 cable in 2010, funded by a loan from the Rural Utilities Service (RUS-USDA), marked a significant step in boosting the island's telecommunications infrastructure by linking it to Guam and Kwajalein.

The World Bank and the FSM Government later collaborated on further projects to extend the connectivity. The Yap fiber optic cable, connected to the SEA-US trans-Pacific submarine cable system, became operational in June 2018. This was followed by the connection of Chuuk to Pohnpei, which became operational on April 27, 2019, linking it also to the existing HANTRU-1 cable. These initiatives were overseen by FSM Telecommunications Cable Corporation (FSMTCC) also known as the Open Access Entity (OAE), ensuring improved access and management of telecommunications for the FSM islands.

The connectivity improvements brought by these submarine fiber optic cables are poised to enhance telecommunications throughout FSM, with Kosrae, the last main island in the FSM to join the fiber network in 2026.

Management's Discussion and Analysis, continued

Market Liberalization

Despite the passage of Public Law No. 18-52 in April 2014, which was intended to liberalize the telecommunications market in the FSM, the anticipated entry of major telecom operators has not materialized, even after a decade. The law aimed to open up the market to competition, improve service quality, and drive down costs through the presence of multiple players.

However, several challenges may have hindered the entry of major operators into the FSM market:

1. Geographical Challenges: FSM is composed of dispersed islands across a vast area of the Pacific Ocean. This geographical spread makes building and maintaining infrastructure expensive and logistically difficult, which can deter potential new entrants.
2. Market Size: The FSM has a relatively small population, limiting the potential customer base for new telecommunications providers. The limited market size may reduce the financial attractiveness for large operators looking to scale their operations.
3. FSM Telecom's Dominance: FSMTC, the incumbent operator, still dominates the market due to its long-established infrastructure and presence, making it difficult for competitors to gain a foothold.

Even with the Telecommunication Regulatory Authority's (TRA) leniency and efforts to create a more attractive environment for new entrants, the FSM has struggled to attract significant investment from new telecom operators. As a result, while the telecommunications market was officially liberalized, the intended effects of increased competition and improved services have yet to be fully realized. For FSM to attract major operators and reap the benefits of market liberalization, further reforms and incentives might be necessary.

Financial Data

This discussion sets the stage for further analysis of FSMTC's financial data, accompanied by detailed statements and notes that follow.

FSMTC offers a range of services, including traditional Plain Old Telephone Services (POTS), more popularly known as the fixed-line services (i.e., net access revenues) to (5,275) active subscribers across the FSM states, with the highest number in Pohnpei (2,625), followed by Yap (1,129), Kosrae (800), and Chuuk (721). Total active subscribers at the end of fiscal year 2024 was 5,807 and 2023 was 6,108.

FSMTC, like many telecom operators globally, is experiencing a decline in fixed-line services. This trend is primarily driven by several factors that are reshaping the telecommunications landscape.

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Management's Discussion and Analysis, continued

Following are the factors contributing to the decline:

1. Shift to Mobile Services:

Mobile technology has become the preferred mode of communication for most consumers in FSM due to its convenience, mobility, and increasing affordability. As more residents rely on mobile phones for voice calls, text, and internet access, the demand for traditional fixed-line services continues to shrink.

2. Growth of Internet-Based Communication:

With the proliferation of internet access, many consumers are opting for Voice over Internet Protocol (VoIP) services and other internet-based communication platforms like WhatsApp, Skype, or Zoom, reducing the reliance on fixed-line telephony. This trend is expected to accelerate as broadband penetration increases across FSM.

3. Cost Efficiency:

Maintaining and upgrading fixed-line infrastructure is costly, especially in FSM's geographically dispersed island environment. Mobile networks, by comparison, can be more cost-effective to deploy and maintain, particularly with advancements in wireless technologies. This shift in infrastructure investment further diminishes the relevance of fixed-line services.

4. Changing Consumer Preferences:

The preference for mobile and wireless communication, driven by a younger, tech-savvy population, has also contributed to the decline. Fixed-line telephony is increasingly viewed as outdated, especially as mobile networks offer comparable or superior call quality, along with additional data services.

5. Decline in Residential and Business Subscriptions:

Both residential and business customers are moving away from fixed-line services. Businesses are opting for mobile and VoIP solutions, which offer flexibility and scalability, while residential users prefer the convenience of mobile communications.

6. Competition:

The emergence of STARLINK, SpaceX's satellite internet service, has significantly affected the traditional internet service providers (ISPs) in regions like the Federated States of Micronesia (FSM). Several factors explain how STARLINK's entry has contributed to the decline in FSM Telecommunications Corporation's (FSMTC) internet revenue such as broader coverage, competitive pricing, faster speed and advanced technology.

In response to this ongoing decline, FSMTC is accelerating its transformation toward more modern, wireless, and data-driven service offerings to maintain its market position and ensure long-term sustainability.

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Management's Discussion and Analysis, continued

FSMTC also provides national and international calling services, as well as internet services. The adoption of mobile cellular services has grown significantly, with 81,156 mobile subscribers. Pohnpei leads with 41,591 subscribers, followed by Chuuk (24,381), Yap (10,076), and Kosrae (5,108). The shift to mobile technology reflects broader global trends toward wireless communication. Total mobile subscribers was 62,166 at the end of fiscal year 2024.

FSMTC has experienced a noticeable increase in revenue from overseas and domestic calls despite of internet-based communication alternatives. In FY2025, calls accounted for just 2.15% of FSMTC's operating revenue, up from 1.83% in FY2024. FSMTC's revenue from overseas and domestic calls increased by \$41,446, representing a 12.61% increase compared to the previous year.

In FY2025, FSMTC's internet services accounted for 40.95% of its operating revenues, as compared to 41.24% in FY2024. FSMTC saw a decrease in internet service revenue by \$348,288 (4.71%) compared to the previous year. The decrease in revenue is primarily attributed to competition.

Mobile technology is a driving force behind the digital transformation of the FSM, providing access to essential services in areas like healthcare and education, while also fostering innovation and economic growth. Despite modest mobile subscriber growth, with penetration rates below regional and global averages, FSMTC continues to invest in upgrading LTE network coverage and speeds. By 2026, 4G & 5G connections are expected to account for more than half of all connections in FSM, with faster network speeds and advanced devices being critical in connecting more people.

Mobile services represented 48.66% of FSMTC's FY2025 operating revenues, compared to 47.87% in FY2024. FSMTC saw a revenue decrease of \$211,156 (2.46%) for mobile services compared to the previous year. Roaming revenue did not pick up as expected; however, with the gradual recovery in international travel, inbound roaming is expected to continue contributing positively to FSMTC's revenues in the coming periods. Mobile phones are now seen as essential tools for both personal and business use. The introduction of more affordable voice and data plans has encouraged more customers to subscribe, further enhancing their internet and mobile service experience.

In FY2025, net inbound carrier revenues (from external carriers) contributed just 0.35% of FSMTC's operating revenues, compared to 0.49% in FY2024. FSMTC experienced a decrease of \$26,893 in net carrier revenues, representing a 30.85% drop compared to the previous year. Internet-based communication platforms allow users to make voice and video calls for free or at lower costs, significantly reducing the need for traditional carrier services and impacting settlement revenue for FSMTC.

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Management's Discussion and Analysis, continued

Statement of Net Position

The statement of net position provides a snapshot of FSMTC's financial standing as of the end of the fiscal year, offering valuable insight into the company's overall financial health. It displays key financial data, including assets (both current and noncurrent), liabilities (current and noncurrent), and net position, which is calculated as assets minus liabilities.

By reviewing this statement, readers can assess FSMTC's available resources to sustain its operations, gauge the company's obligations to vendors and lending institutions, and evaluate its overall financial condition. The net position serves as a crucial indicator of whether FSMTC's financial situation is improving or declining over time.

The total liabilities of FSMTC had **decreased by 23.90%**. The equity of FSMTC was affected by the change in both assets and liabilities and net **profit** from operations & non-operations totaling to **\$953,582**.

During FY2025, 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 **\$2,739,758** as compared to **\$3,116,063** in FY2024. More operational expenses were incurred in FY2025 compared to prior year.

The cash and cash equivalents at the end of FY2025 are **\$3,182,197** as compared to **\$3,681,483** 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 and replacement of the billing system.

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

The following summarizes the financial condition and operations of the FSMTC for FY2025, FY2024 and FY2023:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Assets:			
Cash and cash equivalents	\$3,182,197	\$3,681,483	\$4,707,497
TCDs and investments in securities	738,877	722,087	2,183,540
Receivables and prepayments	2,149,802	1,849,021	2,076,335
Inventory	1,013,362	1,435,006	1,475,964
Total current assets	<u>7,084,238</u>	<u>7,687,597</u>	<u>10,443,336</u>
Advance payment to vendor	444,935	459,039	283,407
Property, plant and equipment	26,835,482	27,484,833	26,307,065
Other non-current assets	1,543,637	1,693,226	1,849,624
Total assets	<u>\$35,908,292</u>	<u>\$37,324,695</u>	<u>\$38,883,432</u>
Liabilities:			
Current liabilities	\$3,039,250	\$4,321,742	\$5,424,199
Non-current liabilities	4,507,441	5,594,934	6,647,846
Total liabilities	<u>7,546,691</u>	<u>9,916,676</u>	<u>12,072,045</u>
Net Position:			
Net investment in capital assets	22,773,516	22,517,420	20,453,778
Unrestricted	5,588,085	4,890,599	6,357,609
Total net position	<u>28,361,601</u>	<u>27,408,019</u>	<u>26,811,387</u>
Total liabilities and net position	<u>\$35,908,292</u>	<u>\$37,324,695</u>	<u>\$38,883,432</u>

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses, and changes in net position highlights the financial activities that directly impact the total net assets of FSMTC. This statement details the company's operating and non-operating revenues and expenses, as well as other gains and losses.

In FY2025, FSMTC's net operating revenue declined by \$518,752, or 2.90%, compared to FY2024. This decrease was primarily driven by reduced inbound roaming revenue. The effects of market liberalization are now evident, as increased competition from new players like Starlink is impacting the telecommunications sector in the FSM. Operating expenses saw a significant reduction of \$847,216, or 4.94%. This decline is largely due to reorganization and the full depreciation of RUS-funded assets, which were acquired 35 years ago. Additionally, costs related to satellite services have decreased as FSMTC transitions to an all-fiber network, except for the outer and lagoon islands in Chuuk.

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Management’s Discussion and Analysis, continued

FSMTC’s investment in capital assets, net of accumulated depreciation, and infeasible right of use, totaled \$28,348,877 in FY2025, compared to \$29,160,480 in FY2024. The decrease of \$811,603, or 2.78%, is primarily attributable to asset retirements.

Additionally, FSMTC’s long-term debt, specifically notes payable to the U.S. Department of Agriculture’s Rural Utilities Service, stood at \$5,575,361 at the end of FY2025. Further details on FSMTC’s capital assets and long-term debt can be found in notes 4 and 7 of the accompanying financial statements, respectively. These details provide important context for understanding FSMTC’s financial commitments and infrastructure investments.

The following table summarizes the financial operations of the FSMTC for the years ended September 30, 2025, 2024 and 2023.

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Operating revenues, net	\$17,339,646	\$17,858,398	\$16,651,768
Operating expenses	16,303,943	17,151,159	16,785,331
Net operating income (loss)	<u>1,035,703</u>	<u>707,239</u>	<u>(133,563)</u>
Investment gain (loss), net	16,790	(6,008)	328,107
Interest expense	(123,788)	(143,059)	(164,330)
Other non-operating income	24,877	38,460	---
Net non-operating (loss) income	<u>(82,121)</u>	<u>(110,607)</u>	<u>163,777</u>
Net income	953,582	596,632	30,214
Net position, beginning of year	<u>27,408,019</u>	<u>26,811,387</u>	<u>26,781,173</u>
Net position, end of year	<u>\$28,361,601</u>	<u>\$27,408,019</u>	<u>\$26,811,387</u>

Economic Outlook

The economic outlook for the telecom industry in Micronesia remains cautiously optimistic, supported by regional development initiatives and recent strategic investments. According to indicators from the Asian Development Bank (ADB) and the World Bank, Micronesia is experiencing gradual economic recovery, with a focus on improving infrastructure and digital connectivity to foster sustainable growth. The ADB emphasizes the importance of ICT infrastructure for economic diversification and social development, which is likely to boost telecom investments and service coverage.

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Management's Discussion and Analysis, continued

A significant development is the recent approval of a \$25 million grant from the Rural Utilities Service (RUS) of the U.S. Department of Agriculture (USDA). This funding aims to extend broadband access to unserved and underserved areas across Micronesia, potentially transforming the telecommunications landscape by increasing connectivity, reducing digital divides, and fostering economic activities in remote communities. The grant complements ongoing efforts to deploy fiber-optic networks and satellite technology, addressing the geographic and logistical challenges faced by the islands. Increased mobile penetration, government initiatives to promote digital literacy, and regional cooperation are expected to contribute to moderate sector growth.

Challenges such as high deployment costs, limited technical expertise, and maintaining affordable service prices persist but are likely to be mitigated by the new funding and continued international support. Market liberalization in the FSM telecommunications industry has significantly contributed to deployment costs, as two agencies—the Open Access Entity and the Telecommunication Regulatory Authority (TRA)—were established. The operational expenses of these agencies are fully borne by FSMTC.

In summary, bolstered by the recent \$25 million USDA grant and regional development initiatives, the telecom industry in Micronesia is poised for growth, which will play a vital role in supporting economic resilience, improving connectivity, and enhancing access to essential services across the islands.

FSMTC is committed to providing reliable and cost-effective communication services throughout the FSM, with most of the modern telecommunications services found in developed countries already available. This improved infrastructure is expected to help FSM attract investors and further develop its economy. FSMTC continues to explore new technologies to deliver better services and reduce operational costs.

The recent amendments (March 2024) to the Compacts of Free Association (COFA) between the U.S. and the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), and the Republic of Palau signify a major commitment from the U.S. to provide \$6.5 billion in economic assistance over the next 20 years. This support is crucial for the economic stability of these nations, helping them maintain essential public services such as health and education, and boosting infrastructure development.

The aid package reflects a dedication to fostering economic self-sufficiency in the FSM, RMI, and Palau. Each nation will benefit from substantial funding—\$3.3 billion for the FSM, \$2.3 billion for the RMI, and \$889 million for Palau—supporting sectors like the environment, education, and private sector development. Additionally, the agreement provides \$634 million to ensure the continuation of U.S. postal services in the region.

The amendments mark a significant step in strengthening the U.S. presence and engagement in the Pacific, reinforcing relationships and ensuring ongoing cooperation with these strategic partners.

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Management's Discussion and Analysis, continued

Management's Discussion and Analysis for the year ended September 30, 2024 is set forth in FSMTC'S report on the audit of financial statements, which is dated January 8, 2025. That Discussion and Analysis explains the major factors impacting the 2024 financial statements and can be viewed at the Office of the FSM National Public Auditor's website at www.fsmopa.fm

Financial Contact

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

Federated States of Micronesia Telecommunications Corporation
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Statements of Net Position

	September 30,	
	<u>2025</u>	<u>2024</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,182,197	\$ 3,681,483
Time certificates of deposit	738,877	722,087
Accounts receivable, net of an allowance for doubtful accounts of \$923,086 and \$1,050,060 in 2025 and 2024, respectively	445,122	602,249
Receivables from international carriers	217,073	162,871
Other receivables	95,092	17,230
Inventory	1,013,362	1,435,006
Accrued interest and other accrued earnings	184,551	323,441
Prepaid expenses and other current assets	<u>1,207,964</u>	<u>743,230</u>
Total current assets	7,084,238	7,687,597
Other receivables, net of an allowance for doubtful accounts of \$2,480,507 and \$2,267,138 in 2025 and 2024, respectively	30,242	17,579
Advance payment to vendor	444,935	459,039
Capital assets:		
Non-depreciable capital assets	7,359,928	7,760,433
Capital assets, net of accumulated depreciation	19,475,554	19,724,400
Indefeasible right of use, net	<u>1,513,395</u>	<u>1,675,647</u>
	<u>\$35,908,292</u>	<u>\$37,324,695</u>
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 1,067,920	\$ 1,048,126
Accounts payable, trade	252,574	205,463
Unearned income	908,212	715,729
Customer deposits	272,311	456,217
Accrued leave payable	73,946	129,642
Other accrued liabilities	<u>464,287</u>	<u>1,766,565</u>
Total current liabilities	3,039,250	4,321,742
Long-term debt, net of current portion	<u>4,507,441</u>	<u>5,594,934</u>
Total liabilities	<u>7,546,691</u>	<u>9,916,676</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	22,773,516	22,517,420
Unrestricted	<u>5,588,085</u>	<u>4,890,599</u>
Total net position	<u>28,361,601</u>	<u>27,408,019</u>
	<u>\$35,908,292</u>	<u>\$37,324,695</u>

See accompanying notes.

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

	Year ended September 30,	
	<u>2025</u>	<u>2024</u>
Operating revenues:		
Mobile charges	\$ 8,374,424	\$ 8,585,580
Internet	7,047,812	7,396,100
Net access	1,921,264	2,123,061
Overseas tolls	370,033	328,587
Miscellaneous	138,339	206,786
External carriers	60,279	87,172
ICTV cable charges	24,668	44,754
Discounts	(727,706)	(836,448)
	17,209,113	17,935,592
Recovery of bad debts (bad debts expense)	<u>130,533</u>	<u>(77,194)</u>
Net operating revenues	<u>17,339,646</u>	<u>17,858,398</u>
Operating expenses:		
Corporate operations	3,936,451	3,632,295
Plant operations	2,666,398	2,712,725
Internet expense	2,290,465	2,374,659
Consumer operations	2,089,060	2,550,939
General support	1,665,003	1,833,807
Wireless and telephone	1,164,232	1,158,845
Cable and wire	955,803	1,529,575
Terminal equipment	932,749	744,900
Central office	310,099	304,524
Earth station	164,578	170,825
ICTV expense	<u>129,105</u>	<u>138,065</u>
Total operating expenses	<u>16,303,943</u>	<u>17,151,159</u>
Income from operations	<u>1,035,703</u>	<u>707,239</u>
Nonoperating (expenses) revenues:		
Interest expense	(123,788)	(143,059)
Other non-operating income	<u>41,677</u>	<u>32,452</u>
Total nonoperating expenses, net	<u>(82,121)</u>	<u>(110,607)</u>
Change in net position	953,582	596,632
Net position at beginning of year	<u>27,408,019</u>	<u>26,811,387</u>
Net position at end of year	<u>\$28,361,601</u>	<u>\$27,408,019</u>

See accompanying notes.

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

Statements of Cash Flows

	Year ended September 30,	
	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Cash received from subscribers, long distance carriers and other customers	\$17,708,296	\$18,001,790
Cash paid to suppliers for goods and services	(10,417,014)	(10,619,485)
Cash paid to employees	(4,551,524)	(4,266,242)
Net cash provided by operating activities	<u>2,739,758</u>	<u>3,116,063</u>
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment	(2,047,557)	(4,406,337)
Repayments of long-term debt	(1,067,699)	(1,048,126)
Interest paid on long-term debt	(124,066)	(143,639)
Cash used in capital and related financing activities	<u>(3,239,322)</u>	<u>(5,598,102)</u>
Cash flows from investing activities:		
Net purchases, sales and maturities of investments securities and time certificates of deposit	---	1,455,445
Interest and dividends	<u>278</u>	<u>580</u>
Cash provided by investing activities	<u>278</u>	<u>1,456,025</u>
Net change in cash and cash equivalents	(499,286)	(1,026,014)
Cash and cash equivalents at beginning of year	<u>3,681,483</u>	<u>4,707,497</u>
Cash and cash equivalents at end of year	<u>\$ 3,182,197</u>	<u>\$ 3,681,483</u>

See accompanying notes.

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

Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2025</u>	<u>2024</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$1,035,703	\$ 707,239
Non-operating income	24,877	38,460
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,859,160	3,390,821
(Increase) decrease in assets:		
Accounts receivable	157,127	(55,140)
Receivables from international carriers	(54,202)	132,226
Other receivables	(90,525)	(2,990)
Inventory	421,644	40,958
Accrued interest and other accrued earnings	138,890	(173,249)
Prepaid expenses and other current asset	(464,734)	320,613
Advance payment to vendor	14,104	(175,632)
Increase (decrease) in liabilities:		
Accounts payable, trade	47,111	183,440
Unearned income	192,483	204,085
Customer deposits	(183,906)	(23,336)
Accrued leave payable	(55,696)	(5,048)
Other accrued liabilities	<u>(1,302,278)</u>	<u>(1,466,384)</u>
Net cash provided by operating activities	<u>\$2,739,758</u>	<u>\$3,116,063</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, 2025 and 2024

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, 2025 and 2024.
- 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.

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.

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.

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, continued

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, 2025 and 2024, 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

Vesting vacation leave is accrued and reported as an expense and a liability in the period earned. The Corporation does not provide separate benefits for other type of leave, such as sick leave or maternity leave; however, it may grant administrative leave on a case-by-case basis that is subject to approval. The Corporation pays out accrued leave three months after each year-end based on each employee's discretion as to the hours to be paid. The maximum accumulation of vacation leave convertible to pay is limited to 208 hours. At September 30, 2025 and 2024, accrued leave liability of \$73,946 and \$129,642, respectively, represents accrued vacation leave.

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, such as customer advance payments or prepaid cards sold but not yet activated.

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, 2025 and 2024, the FSM National Government assessed the Corporation GRT of \$342,084 and \$360,870, 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, 2025 and 2024, the TRA 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 \$307,970 and \$293,570, 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 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. The adoption of this statement did not result in a material effect on the accompanying financial statements.

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. The adoption of this statement did not result in a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability and address certain application issues identified through pre-agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to management's discussion and analysis (MD&A), unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in basic financial statements, budgetary comparison information and financial trends information in the statistical section. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

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 September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 104 will be effective for fiscal year ending September 30, 2026.

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this statement is to provide guidance designed to improve the financial reporting requirements and enhance consistency in the application of those requirements for subsequent events. The statement defines subsequent events as transactions or other events that occur after the date of the financial reporting statements but before the date the financial statements are available to be issued. The definition of subsequent events in the statement modifies the subsequent events time frame throughout GASB literature. Statement No. 105 also clarifies types of subsequent events, when note disclosures are required, and information that should be included in those disclosures. GASB Statement No. 105 will be effective for fiscal year ending September 30, 2027.

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

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, 2025 and 2024, the carrying amount of the Corporation's total cash and cash equivalents and time certificates of deposit was \$3,921,074 and \$4,403,570, respectively, and the corresponding bank balances were \$3,987,263 and \$4,412,056, respectively, all of which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2025 and 2024, bank deposits in the amount of \$834,614 and \$816,706, 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.

During the year ended September 30, 2024, the Corporation withdrew \$1.5 million of its investments to finance its capital expenditures as approved by the Board of Directors. The remaining balance was used to purchase time certificates of deposit.

4. Capital Assets

Capital asset activities of the Corporation for the years ended September 30, 2025 and 2024 are as follows:

	Estimated <u>Useful Lives</u>	Balance October 1, <u>2024</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2025</u>
General support	5-35 years	\$ 18,144,649	\$ 486,622	\$(221,298)	\$ 18,409,973
Central office	20 years	12,212,807	54,218	---	12,267,025
Earth station	20 years	2,039,226	---	---	2,039,226
Terminal equipment	5-20 years	4,455,726	94,047	---	4,549,773
Cellular network	10-20 years	25,544,467	1,122,145	(5,686,548)	20,980,064
Internet equipment	8 years	3,764,285	---	---	3,764,285
Pole, cable and wiring	15-20 years	<u>48,069,371</u>	<u>691,028</u>	<u>---</u>	<u>48,760,399</u>
Total		114,230,531	2,448,060	(5,907,846)	110,770,745
Accumulated depreciation		<u>(94,506,131)</u>	<u>(2,696,906)</u>	<u>5,907,846</u>	<u>(91,295,191)</u>
Depreciable assets, net		<u>19,724,400</u>	<u>(248,846)</u>	<u>---</u>	<u>19,475,554</u>
Land		550,000	---	---	550,000
Plant under construction		<u>7,210,433</u>	<u>1,157,367</u>	<u>(1,557,872)</u>	<u>6,809,928</u>
Non-depreciable total		<u>7,760,433</u>	<u>1,157,367</u>	<u>---</u>	<u>7,359,928</u>
Capital assets, net		<u>\$ 27,484,833</u>	<u>\$ 908,521</u>	<u>\$(1,557,872)</u>	<u>\$ 26,835,482</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, continued

Capital asset activities of the Corporation for the years ended September 30, 2025 and 2024 are as follows:

	Estimated Useful Lives	Balance October 1, 2023	Additions	Retirements	Balance September 30, 2024
General support	5-35 years	\$ 17,877,967	\$ 369,214	\$(102,532)	\$118,144,649
Central office	20 years	12,217,607	---	(4,800)	12,212,807
Earth station	20 years	2,033,495	5,731	---	2,039,226
Terminal equipment	5-20 years	4,192,330	318,124	(54,728)	4,455,726
Cellular network	10-20 years	25,170,092	438,521	(64,146)	25,544,467
Internet equipment	8 years	3,786,624	---	(22,339)	3,764,285
Pole, cable and wiring	15-20 years	<u>49,387,639</u>	<u>286,817</u>	<u>(1,605,085)</u>	<u>48,069,371</u>
Total		114,665,754	1,418,407	(1,853,630)	114,230,531
Accumulated depreciation		(93,131,198)	(3,228,563)	<u>1,853,630</u>	(94,506,131)
Depreciable assets, net		<u>21,534,556</u>	<u>(1,810,156)</u>	---	<u>19,724,400</u>
Land		550,000	---	---	550,000
Plant under construction		<u>4,222,509</u>	<u>2,987,924</u>	---	<u>7,210,433</u>
Non-depreciable total		<u>4,772,509</u>	<u>2,987,924</u>	---	<u>7,760,433</u>
Capital assets, net		\$ <u>26,307,065</u>	\$ <u>1,177,768</u>	\$ <u>---</u>	\$ <u>27,484,833</u>

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.

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

Notes to Financial Statements, continued

5. Infeasible Right of Use (IRU), continued

As of September 30, 2025 and 2024, the Corporation's IRUs are as follows:

	<u>2025</u>	<u>2024</u>
Cost	\$3,896,301	\$3,896,301
Accumulated amortization	<u>(2,382,906)</u>	<u>(2,220,654)</u>
IRU, net	<u>\$1,513,395</u>	<u>\$1,675,647</u>

6. Long-term Debt

Long-term debt at September 30, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</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.	\$5,575,361	\$6,643,060
Less current portion of long-term debt	<u>1,067,920</u>	<u>1,048,126</u>
Long-term debt, net of current portion	<u>\$4,507,441</u>	<u>\$5,594,934</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>
2026	\$1,067,920	\$100,208	\$1,168,128
2027	1,106,265	78,617	1,184,882
2028	1,128,286	56,596	1,184,882
2029	1,150,745	34,137	1,184,882
2030	<u>1,122,145</u>	<u>11,232</u>	<u>1,133,377</u>
	<u>\$5,575,361</u>	<u>\$280,790</u>	<u>\$5,856,151</u>

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

Notes to Financial Statements, continued

6. Long-term Debt, continued

A summary of changes in long-term debt for the years ended September 30, 2025 and 2024 are as follows:

	Balance <u>October 1, 2024</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>September 30, 2025</u>	Due Within <u>One Year</u>
Notes payable:					
Rural Utilities Service	\$ <u>6,643,060</u>	\$ <u>---</u>	\$(<u>1,067,699</u>)	\$ <u>5,575,361</u>	\$ <u>1,067,920</u>
	Balance <u>October 1, 2023</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>September 30, 2024</u>	Due Within <u>One Year</u>
Notes payable:					
Rural Utilities Service	\$ <u>7,691,186</u>	\$ <u>---</u>	\$(<u>1,048,126</u>)	\$ <u>6,643,060</u>	\$ <u>1,048,126</u>

7. Commitments and Contingencies

Operating Leases

The Corporation has various operating leases as of September 30, 2025. 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.

For each of the years ended September 30, 2025 and 2024, operating expense recorded under the operating lease agreements totaled \$19,889.

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>	
2026	\$ 1,477,452
2027	1,246,452
2028	1,246,452
2029	1,246,452
2030	1,246,452
2031-2033	<u>3,627,756</u>
Total future contract payments	<u>\$10,091,016</u>

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

7. Commitments and Contingencies, continued

Circuit Service Agreements, continued

During the years ended September 30, 2025 and 2024, operating expense recorded under the circuit service agreements totaled \$1,127,312 and \$1,324,626, 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%.

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 \$16,838,000 and \$11,620,000 is outstanding under these contracts as of September 30, 2025 and 2024, respectively.

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.

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

7. Commitments and Contingencies, continued

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.

Federal Grant

In August 2025, the Corporation received the approval and offer letter for a grant under the U.S. Rural Utilities Services (RUS) ReConnect program for \$25 million. A formal grant agreement is in process and no obligation of funds has occurred. This funding aims to extend broadband access to unserved and underserved areas across Micronesia, potentially transforming the telecommunications landscape by increasing connectivity, reducing digital divides, and fostering economic activities in remote communities.

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.

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 the years ended September 30, 2025 and 2024, the Corporation recognized expenses of \$863,946 and \$843,018, respectively, for services provided by FSMT Cable Corporation.

Starting April 2020, the Corporation ceased all payments due to FSMT Cable Corporation because the Corporation challenged the IRU deed.

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 \$2,510,749 and \$2,284,717 as of September 30, 2025 and 2024, respectively, net of an allowance for doubtful accounts of \$2,480,507 and \$2,267,138, respectively, which is included in other non-current receivables, net, in the accompanying statements of net position.

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

8. Related Party Transactions, continued

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

In July 2023, the FSM Supreme Court trial division entered a judgment of \$2,678,197 in favor of FSMT Cable Corporation for the Corporation's unpaid invoices to FSMT Cable Corporation computed through July 2023, including post judgment interest accruing at 9% per annum, with attorney fees to be determined. The Corporation filed an appeal of the judgement and a motion to stay enforcement of the judgment pending appeal. It also sought to stop further accruing 9% of interest on the judgmental while the appeal is pending. The Court granted the Stay in an order dated October 9, 2023 with the condition that the Corporation paid into court the judgement amount of approximately \$2.8 million as a bond, which is to be placed into a separate account under the Court's control. Additionally, the Corporation was ordered to pay FSMT Cable Corporation's current monthly invoices starting August 2023. In compliance with the Order, the Corporation paid the cash bond amounting to \$2.8 million on October 18, 2023.

As of September 30, 2025, the Corporation intends to continue the vigorous defend of 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, 2025 and 2024 were \$303,479 and \$279,075, respectively, and employee contributions were \$208,676 and \$186,153, 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 \$4,715,102 and \$4,438,622 at September 30, 2025 and 2024, respectively.

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>2025</u>	<u>2024</u>
Salaries and wages	\$ 4,495,828	\$ 4,261,194
Depreciation and amortization	2,859,160	3,390,821
Cost of sales	1,326,992	1,755,810
Repairs and maintenance	1,561,870	1,593,426
Utilities	1,503,901	1,412,174
Circuit lease	1,127,312	1,324,626
OAE	863,946	843,018
Taxes	669,237	677,177
Travel	328,573	347,950
Rental expenses	239,357	213,571
Supplies	229,460	184,769
Petroleum and lubricants	195,780	273,089
Contractual services	146,968	183,380
Training	97,975	24,449
ICTV Affiliated	74,065	78,093
Communication	73,487	104,292
Insurance	70,323	64,876
Professional fees	59,061	40,322
Freight	53,864	66,459
Representation	25,714	18,984
Advertising	23,957	51,837
Publications and printing	23,800	28,884
Land lease	20,989	20,989
Miscellaneous	<u>232,324</u>	<u>190,969</u>
	<u>\$16,303,943</u>	<u>\$17,151,159</u>

Federated States of Micronesia Telecommunications Corporation
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Schedule of Expenditures of Federal Awards

Year ended September 30, 2025

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

<u>Approved Purposes</u>	Loan Proceeds Approved as of September 30, <u>2025</u>	Total Disbursements as of September 30 <u>2025</u>	Loan Proceeds Received During <u>FY 2025</u>	Total Disbursements on Contracts During <u>FY 2025</u>
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. Drawdowns totaled \$52,094,767 through project completion.



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

Board of Directors
Federated States of Micronesia Telecommunications Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia (FSM) Telecommunications Corporation (the Corporation), which comprise the statement of net position as of September 30, 2025, 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 January 31, 2026.

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

January 31, 2026