

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

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**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

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**Years Ended September 30, 2022 and 2021**

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Financial Statements

Years Ended September 30, 2022 and 2021

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**BURGER · COMER · MAGLIARI**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Belau Submarine Cable Corporation:

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of net position of Belau Submarine Cable Corporation (BSCC), a component unit of the Republic of Palau (ROP), as of September 30, 2022 and 2021, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise BSCC'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 respective financial position of BSCC at September 30, 2022 and 2021 and the respective 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of BSCC 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 opinions.

***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 BSCC'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 opinions. 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 BSCC'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 BSCC'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 (MD&A) on pages 4 through 9, the Schedule of Proportional Share of the Net Pension Liability on page 40, and the Schedule of Pension Contributions on page 41, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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. This supplementary information is the responsibility of BSCC's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 April 11, 2023 on our consideration of BSCC'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 BSCC'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 BSCC's internal control over financial reporting and compliance.



Koror, Republic of Palau  
April 11, 2023

# **BELAU SUBMARINE CABLE CORPORATION**

(A Component Unit of the Republic of Palau)

## Management's Discussion and Analysis

September 30, 2022

This section of Belau Submarine Cable Corporation's (BSCC) annual financial report presents management's analysis of its financial performance during the fiscal year ended September 30, 2022. Responsibility for the completeness and fairness of this information rests with the Corporation. As management of the Belau Submarine Cable Corporation, a component unit of the Republic of Palau (ROP), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended September 30, 2022. We encourage readers to consider the information presented in conjunction with the Corporation's financial statements and accompanying notes to the financial statements.

The Belau Submarine Cable Corporation (BSCC) was established in 2015 to deliver state-of-the-art wholesale broadband internet services to the people of Palau. With the support of the Asian Development Bank (ADB), the project entails construction of a low latency submarine fiber optic cable linking Palau to a branching unit on the SEA-US submarine cable system (BSCCnet). SEA-US provides connectivity between mainland USA (via Guam and Hawaii) and the Philippines and Indonesia. BSCCnet provides a link between Ngeremlengui in Palau (Capacity Access Point N, CAP-N) and Piti in Guam (CAP-G), for onward interconnection to global networks.

In FY 2020 and 2021 BSCC extended its access point at CAP-N to a temporary access point at the KB Shell corner in Airai (CAP-KBS), using micro-duct / micro-trench optical fiber technology along the Compact Road, to eliminate capacity bottlenecks. This extension was also funded by ADB, as was the full extension, completed in 2022, with a new permanent access point at the BSCC Technical Center at the airport site, now completed (CAP-A), and elimination of the single point of failure on the Westside fiber by closing of the loop around the Compact Road to the north and Eastside with the same micro-duct / micro-trench fiber technology (final splicing work will be completed in Q2 2023).

In FY 2021, BSCC embarked on a project to build a second submarine fiber connection, this time from the Echo cable system currently under construction to a landing point at Ngardmau in Palau (CAP-O, where O stands for Onechduul, the old name for Ngardmau). This project is funded by a combination of debt, grants, and equity, and will ensure resilient international connectivity. The beach landing facilities, cable landing station and connecting ductworks are all complete. Cable is laid from the beach pit to the Echo branching unit, awaiting final splice.

### **Using This Annual Report**

BSCC's financial statements are designed to emulate corporate presentation models whereby all Corporation activities are consolidated into one total. The focus of the Statements of Net Position is designed to be similar to bottom line results for the Corporation. This Statement combines and consolidates current financial resources (short-term spendable resources) with capital assets. The Statements of Revenues, Expenses, and Changes in Net Position focus on BSCC's start-up activities, which are supported by operating revenues after Ready for Service was declared on

# **BELAU SUBMARINE CABLE CORPORATION**

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Management's Discussion and Analysis

September 30, 2022

December 7, 2017. This approach is intended to summarize and simplify the user's analysis of cost of various BSCC services to the public.

## **BSCC Structure**

BSCC was established as a state-owned corporation to procure, own and manage submarine fiber optic cable connectivity for the Republic of Palau. The company was incorporated in 2015 by RPPL 9-47 (the BSCC Act), to progress a project initiated by the World Bank and Asian Development Bank (ADB) to provide international submarine fiber optic connectivity for the Republic of Palau (ROP). Until the end of FY 2020 ADB remained the sole financier. On January 13, 2021, BSCC signed debt financing agreements with Japan Bank for International Cooperation (JBIC), Sumitomo Mitsui Banking Corporation (SMBC) and Export Finance Australia (EFA) for the construction of a second Palau submarine cable connection (the PC2 Project). BSCC has provisionally applied for a license to operate a wholesale network in ROP in January 2018 in accordance with RPPL 10-17 of 2017 (the Telecoms Act). The sole shareholder in BSCC is the Minister of Finance. A Board of Directors is appointed by the ROP government.

BSCC was in its fifth year of operations during the fiscal year ended September 30, 2022.

## **Overview of Financial Statements**

The Financial Section of this report presents the Corporation's financial statements as two components: basic financial statements and notes to the financial statements.

### *Basic Financial Statements*

The *Statement of Net Position* reflects the financial position of the Corporation as of September 30, 2022 and 2021. It shows the assets owned or controlled, deferred outflows of resources, related liabilities and other obligations, deferred inflows of resources, and the categories of net position. Net position is an accounting concept defined as total assets and deferred outflows less total liabilities and deferred inflows.

The *Statements of Revenues, Expenses, and Changes in Net Position* reflects the results of operations and other changes for the year ended September 30, 2022 and 2021. It shows revenues and expenses, both operating and non-operating, and reconciles the beginning net position amount to the ending net position amount, which is shown on the *Statements of Net Position* described above.

The *Statements of Cash Flows* reflect the inflows and outflows of cash for the year ended September 30, 2022 and 2021. It shows the cash activities by type and reconciles the beginning cash amount to the ending cash amount, which is shown on the *Statements of Net Position*, described above. In addition, this Statement reconciles cash flows from operating activities to operating profit on the *Statements of Revenues, Expenses, and Changes in Net Position*.

# **BELAU SUBMARINE CABLE CORPORATION**

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Management's Discussion and Analysis  
September 30, 2022

## *Notes to the Financial Statements*

Various notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are found immediately following the financial statements to which they refer.

### **Current Status of Project**

The initial scope of the project was completed well within the \$25M funding envelope. It included:

- An Indefeasible Right of Use (IRU) with Globe Telecom International (GTI) of Philippines for five 100 Gigabit per second wavelengths on the SEA-US cable that was Ready For Service (RFS) in July 2017. That is, at the time of writing this analysis, SEA-US is already completed and in operation. The IRU is a capacity ownership contract for the span from the Palau Branching Unit (BU) 3a to the Guam Telecom (GTA) Cable Landing Station in Guam.
- Construction of a Cable Landing Station (CLS) in Ngeremlengui, including a 120-foot tower to support customer IP Radio equipment, a Beach Manhole (BMH), beach bulkhead, armoured conduits linking the BMH and the bulkhead, mains, auxiliary diesel and back up battery power systems and sea, ground and station earths.
- Construction of a submarine fiber optic spur from the BMH to BU3a on SEA-US, approximately 210 km, including all CLS Submarine Line Terminating Equipment (SLTE), Power Feed Equipment (PFE), Network Protection Equipment (NPE) and network management systems and equipment, plus industry standard spares.

In FY 2018 the scope of the project was expanded so BSCC can fulfil its charter to provide equal access to its customers, since the CLS site, while the best available in Republic of Palau for a submarine cable landing, is somewhat remote from the main population centers. A proposal to extend the network with fiber along the roadside to an additional Customer Access Point (CAP) in Airai was approved by Asian Development Bank (ADB). This extension can be accommodated within the funding envelope. A design contract for the outside plant route has been completed by Globe Telecom of Philippines and a contract awarded to G&C Underground Services to construct the fiber link. This west-side fiber was completed and in service at the end of FY 2019/20, and both the east-side fiber and the Technical Center were completed by Q2 2023.

The original scope of the project was completed well under budget and ahead of schedule. The network was placed in service on December 7<sup>th</sup> 2017. Since a four-hour outage on May 23, 2018, network performance has been outstanding, achieving 99.98% availability life-to-date.

BSCC's business model is shaped by the provisions of the BSCC Act. BSCC is a wholesale carrier, selling only to Retail Service Providers, at full economic cost (including financing cost).

**BELAU SUBMARINE CABLE CORPORATION**  
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Management's Discussion and Analysis  
September 30, 2022

There is a single product, wholesale capacity between Palau and Guam. In such a capital-intensive commodity business, the key to maximizing the overall goals of improved services at significantly lower unit prices, is to ensure that the construction cost is managed effectively, with an uncompromising focus on quality. The cost to complete the full PC1 scope (including the network extension to Airai) is \$25 million. PC2 is expected to cost \$30M.

Sales have exceeded expectations and are currently at 11 Gbits/sec as of March 2023.

The COVID crisis has impacted Palau seriously because the tourism industry, a fundamental contributor to the economy, was stopped in March 2020, stalling capacity growth. BSCC cash receipts were impacted. BSCC customers faced pressure on their own cashflow as their commercial customers unable to meet their own payment obligations. BSCC took the view that the market needed support and that competition should be maintained where possible. Once normalized trading recommenced post COVID restrictions, arrangements were entered into with select customers that ensured continued capacity supply, provided future payment obligations were honored, as they have been to March 2023. This resulted in a one-off charge against bad debts of \$1,349,400 against FY 2022 (FY 2021 – Nil).

**Financial Statements for the Year Ended September 30, 2022 and 2021**

Statements of Net Position

	2022	2021 (As Restated)
Assets:		
Current assets	\$ 5,949,910	\$ 6,224,230
Capital assets, net	29,866,325	18,536,681
Other assets	25,333	88,929
Deferred outflows of resources from pension	176,203	176,203
Total assets	\$ 36,017,771	\$ 25,026,043
Liabilities and Net Position:		
Current liabilities	\$ 7,196,760	\$ 1,820,507
Long-term debt, net of current portion	27,596,929	20,824,571
Net pension liability	192,325	192,325
Deferred inflows of resources from pension	17,423	17,423
Net position	1,014,334	2,204,762
Total liabilities and net position	\$ 36,017,771	\$ 25,059,588

**BELAU SUBMARINE CABLE CORPORATION**  
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Management's Discussion and Analysis  
September 30, 2022

**Financial Statements for the Year Ended September 30, 2022 and 2021, continued**

Statements of Revenues and Expenses and Changes in Net Position

	2022	2021 (As Restated)
Operating revenues	\$ 2,939,596	\$ 3,086,840
Operating expenses	3,650,069	2,441,871
Operating (loss) income	(710,473)	644,969
Nonoperating revenues (expenses), net	(446,410)	(258,418)
Change in net position	(1,156,883)	386,551
Net position, beginning of year	2,171,217	1,784,666
Net position, end of year	\$ 1,014,334	\$ 2,171,217

Statements of Cash Flows

	2022	2021 (As Restated)
Net cash flows provided by operating activities	\$ 1,624,605	\$ 2,426,010
Net cash flows provided used in capital and related financing activities	(1,125,359)	(1,480,896)
Net cash flows from investing activities	84	78
Net change in cash	499,330	945,192
Cash, beginning of year	5,293,830	4,348,638
Cash, end of year	\$ 5,793,160	\$ 5,293,830
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	\$ (710,473)	\$ 644,969
Net adjustments to reconcile operating (loss) income to net cash provided by operating activities	2,335,078	1,781,041
	\$ 1,624,605	\$ 2,426,010

The main movement in Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position items between FY 2022 and FY 2021 reflects reasonable growth considering the impact of COVID-19 on cash receipts.

BSCC was funded by an injection of \$276,400 in cash and \$28,600 in kind by Republic of Palau on August 25, 2016. Additional financing was through back-to-back loans from Asian Development Bank (ADB) via Republic of Palau, totaling \$25,000,000, as part of the North Pacific Regional Connectivity Investment Project:

3346-PAL 7 <sup>th</sup> March 2016	Ordinary Loan	\$16,470,000
3347-PAL 7 <sup>th</sup> March 2016	Subsidiary Loan	\$8,530,000

BSCC has been servicing interest on debt from operational revenues since December 2018 (interest during construction was capitalized) and meeting principal payments since June 2021.

# **BELAU SUBMARINE CABLE CORPORATION**

(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis

September 30, 2022

## **Economic Factors and Business Plan that will affect the Future**

In most markets world-wide, capacity demand growth has proved remarkably impervious to fluctuations in overall economic activity. BSCC expects the Palau market will demonstrate renewed strong growth once tourism resumes.

BSCC developed a Business Plan for fiscal years 2023 – 2027 which is briefly discussed below.

The Plan includes the PC2 project, which commenced in 2021 and is currently expected to be completed by Q1 2025. The total PC2 project will cost \$29.8M and connects the ECHO Cable to a new landing station at Ngardmau (CAP-O). The plan also includes completing the network extension to Airai in 2023, and the further refinement of operational processes and strengthening of operational capability. The Plan is available for download on the BSCC web site.

## **PC2 Project Funding**

On January 13<sup>th</sup> 2021, BSCC and RoP signed debt financing agreements with:

- Export Finance Australia (EFA) \$8.4M
- Japan Bank for International Cooperation (JBIC) \$4.0M
- Sumitomo Mitsui Banking Corporation (SMBC) \$4.0M

The balance of the \$29.8M PC2 project is funded through grant and equity from:

RoP / Compact of Free Association	\$7.0M
USAID	\$3.8M
AUSAID	\$0.6M
Australia Infrastructure Financing Facility for the Pacific (AIFFP)	\$0.8M
BSCC	\$0.9M

## **Requests for Information**

This report is intended to provide a summary of the financial condition of Belau Submarine Cable Corporation. Questions or requests for additional information should be addressed to:

Robin Russell  
Chief Executive Officer  
P.O. Box 10253  
Koror, Palau 96940

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Statements of Net Position  
September 30, 2022 and 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u> <u>(As Restated)</u>
Current assets:		
Cash	\$ 5,793,160	\$ 5,293,830
Accounts receivable	<u>156,750</u>	<u>930,400</u>
Total current assets	<u>5,949,910</u>	<u>6,224,230</u>
Capital assets:		
Depreciable capital asset, net	24,510,876	12,914,571
Indefeasible right of use, net	5,355,449	5,622,110
Other assets	<u>25,333</u>	<u>88,929</u>
Total capital assets, net	<u>29,891,658</u>	<u>18,625,610</u>
Deferred outflows of resources - pension	<u>176,203</u>	<u>176,203</u>
Total assets	<u>\$ 36,017,771</u>	<u>\$ 25,026,043</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term debt	\$ 400,000	\$ -
Accrued expenses	335,165	174,217
Deferred income	<u>6,461,595</u>	<u>1,646,290</u>
Total current liabilities	<u>7,196,760</u>	<u>1,820,507</u>
Non-current liabilities:		
Long-term debt, net of current portion	27,596,929	20,824,571
Net pension liability	<u>192,325</u>	<u>192,325</u>
Total noncurrent liabilities	<u>27,789,254</u>	<u>21,016,896</u>
Total liabilities	<u>34,986,014</u>	<u>22,837,403</u>
Deferred inflows of resources - pension	<u>17,423</u>	<u>17,423</u>
Commitments		
Net position:		
Net investments in capital assets	(2,269,396)	(2,287,890)
Unrestricted	<u>3,283,730</u>	<u>4,459,107</u>
Total net position	<u>1,014,334</u>	<u>2,171,217</u>
Total liabilities and net position	<u>\$ 36,017,771</u>	<u>\$ 25,026,043</u>

See accompanying notes to financial statements.

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Statements of Revenues and Expenses and Changes in Net Position  
Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u> (As Restated)
Revenue	<u>\$ 2,939,596</u>	<u>\$ 3,086,840</u>
Operating expenses:		
Bad debts	1,349,400	-
Depreciation and amortization	1,336,884	1,491,698
Salaries and wages	312,496	333,105
Customer service center support	148,427	152,045
Taxes	89,801	105,547
Professional fees	62,703	84,840
Capacity purchase	57,382	49,500
Marine maintenance	52,549	51,969
Rent	44,768	20,095
Insurance	30,412	14,512
Communications	22,836	30,562
Utilities	21,641	16,315
Travel	13,220	-
Network operating center	10,027	45,951
Director fees	6,150	-
Bank service charges	5,916	4,369
Office supplies	5,270	5,393
Meals and entertainment	2,339	1,107
Miscellaneous	<u>77,848</u>	<u>34,863</u>
Total operating expenses	<u>3,650,069</u>	<u>2,441,871</u>
Operating (loss) income	<u>(710,473)</u>	<u>644,969</u>
Nonoperating revenues (expense):		
Interest expense	(446,494)	(258,496)
Interest income	<u>84</u>	<u>78</u>
Total nonoperating revenues (expense), net	<u>(446,410)</u>	<u>(258,418)</u>
Change in net position	(1,156,883)	386,551
Net position, beginning of year	<u>2,171,217</u>	<u>1,784,666</u>
Net position, end of year	<u>\$ 1,014,334</u>	<u>\$ 2,171,217</u>

See accompanying notes to financial statements.

**BELAU SUBMARINE CABLE CORPORATION**  
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Statements of Cash Flows  
Years Ended September 30, 2022 and 2021

	2022	2021 (As Restated)
Cash flows from operating activities:		
Cash received from customers for services	\$ 2,497,442	\$ 3,301,913
Cash paid to suppliers for goods and services	<u>(872,837)</u>	<u>(875,903)</u>
Net cash provided by operating activities	<u>1,624,605</u>	<u>2,426,010</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(12,666,528)	(2,038,112)
Proceeds from long-term debt	7,172,358	580,422
Grant proceeds	4,815,305	235,290
Interest paid on long-term debt	<u>(446,494)</u>	<u>(258,496)</u>
Net cash used in capital and related financing activities	<u>(1,125,359)</u>	<u>(1,480,896)</u>
Cash flows from investing activities:		
Interest received on cash in bank	<u>84</u>	<u>78</u>
Net cash provided by investing activities	<u>84</u>	<u>78</u>
Net change in cash	499,330	945,192
Cash, beginning of year	<u>5,293,830</u>	<u>4,348,638</u>
Cash, end of year	<u>\$ 5,793,160</u>	<u>\$ 5,293,830</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	\$ (710,473)	\$ 644,969
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,336,884	1,491,698
Bad debts	1,349,400	-
Noncash pension cost	-	33,545
Decrease (increase) in accounts receivable	(575,750)	245,600
Increase (decrease) in other assets	63,596	(30,527)
Increase in accrued expenses	<u>160,948</u>	<u>40,725</u>
	<u>\$ 1,624,605</u>	<u>\$ 2,426,010</u>

See accompanying notes to financial statements.

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Notes to Financial Statements  
September 30, 2022 and 2021

(1) Organization and Summary of Significant Accounting Policies

Organization

Belau Submarine Cable Corporation (BSCC or the Company), a component unit of the Republic of Palau (ROP), was created on September 15, 2015, under the provisions of Republic of Palau Public Law (RPPL) 9-47 and approved and signed in by the President of the Republic of Palau on September 21, 2015 (as amended, the “Incorporation Act”). In accordance with the Incorporation Act, the initial shareholder of BSCC is the Government of the Republic of Palau. The law created a wholly-owned government corporation governed by a Board of Directors comprising five (5) members appointed by the President of the ROP, with the advice and consent of the Senate of the Olbiil Era Kelulau (ROP National Congress). The Board members serve terms of four (4) years and may be reappointed by the President, with the advice and consent of the ROP National Congress.

The primary purpose of BSCC is to procure, own and manage a fiber optic cable on behalf of the ROP government.

Basis of Accounting

The accounting policies of BSCC conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. BSCC utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Corporation utilizes the accrual basis of accounting.

The financial statements of BSCC have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. BSCC implemented Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement identifies and consolidates accounting and financial reporting provisions that apply to state and local governments.

BSCC implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government* as amended by GASB Statement No. 37, *Basic Financial Statements and 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*, that 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 categories:

**BELAU SUBMARINE CABLE CORPORATION**  
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Notes to Financial Statements  
September 30, 2022 and 2021

(1) Organization and Summary of Significant Accounting Policies, Continued

*Net investment in capital assets:*

Capital assets net of accumulated depreciation, reduced by the outstanding principal balances of debt attributable to the acquisition, construction or improvements of those assets.

*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 with the passage of time. The Corporation has no restricted net position at September 30, 2022 and 2021.

*Unrestricted:*

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

Cash

For the purposes of the Statement of Net Position and Statement of Cash Flows, BSCC considers cash to be cash on hand plus cash in checking and savings accounts. All of BSCC's cash deposits are with a federally insured bank, \$250,000 of which is subject to coverage by federal insurance and is within insurable limits as of September 30, 2022 and 2021.

Accounts Receivable

Accounts receivable are due from a ROP governmental entity and businesses all located with the Republic of Palau and are interest free and uncollateralized.

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 uncollectible after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management believes that its accounts receivable are collectible, therefore a valuation was not recorded at September 30, 2022 and 2021.

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Notes to Financial Statements  
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(1) Organization and Summary of Significant Accounting Policies, Continued

Property, Plant and Equipment

Property, plant and equipment are stated at cost. BSCC capitalizes buildings, land improvements and equipment that have a cost of \$200 or more and an estimated useful life of at least five years. The cost of maintenance and repairs is charged to expense. Depreciation is calculated on the straight-line method over the estimated useful lives of the respective assets which range from 3 to 40 years. Depreciation expense was \$1,070,223 and \$1,225,035 for the years ended September 30, 2022 and 2021, respectively.

Capital Asset Under Construction

BSCC has been progressing the development of a second submarine cable connection (the PC2 project) over the past year and has spent \$813,752 on progressing the project to financing stage as of September 30, 2022. These funds were spent on external financial, technical and legal consultant support and for the down-payment on a Marine Survey that was conducted by NEC Corporation.

Indefeasible Right of Use

BSCC has capitalized the cost of acquisition of the exclusive right to use a specified amount of fiber capacity for a period of time, which is amortized over 25 years, the length of the term of the capacity agreement on the straight-line method.

Impairment of Capital Assets

In accordance with GASB Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the Corporation evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred.

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value. At September 30, 2022 and 2021, no assets had been written down.

Deferred Revenue

Deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. Deferred revenue results from funds received through various grants.

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(1) Organization and Summary of Significant Accounting Policies, Continued

Net Position

Net position represents the residual interest in BSCC's assets after liabilities are deducted. Net investments in capital assets include capital assets reduced by outstanding debt. Unrestricted net position is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Pensions

During the year ended September 30, 2022, BSCC commenced participation and contributed to the Palau Civil Service Pension Trust Fund (the Fund), a defined benefit, cost-sharing, multi-employer pension plan established and administered by the Republic of Palau. BSCC was included in the most recent actuarial study conducted for the ROP Civil Service Trust Fund. The Fund issues a stand-alone financial report which is available at its office site.

Pensions are required to be recognized and disclosed using the accrual basis of accounting. BSCC recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents BSCC's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a defined benefit, cost sharing multi-employer plan. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources, depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or as deferred outflows of resources, that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience, are amortized over the weighted-average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

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Notes to Financial Statements  
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(1) Organization and Summary of Significant Accounting Policies, Continued

Revenues

Revenue from capacity use agreements is recognized when earned in accordance with applicable terms.

Non-operating Revenues and Expenses

Non-operating revenues and expenses result from investing and financing activities, including interest paid on long-term debt. Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as interest income, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Income Taxes

ROP does not impose corporate income taxes. In lieu of income taxes, all businesses are required to pay a business Gross Revenue Tax (GRT) on essentially all revenue received. The tax rate is 4% and is paid on a quarterly basis. BSCC is exempt from GRT.

Recently Adopted Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 did not have an effect on beginning net position. BSCC determined that its lease agreement was immaterial and did not record a lease asset and a lease liability as of October 1, 2021.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

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Notes to Financial Statements  
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(1) Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, continued

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefits.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

The adoption of these GASB Statements did not have a material effect on the financial statements.

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Notes to Financial Statements  
September 30, 2022 and 2021

(1) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method for 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 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. GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

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Notes to Financial Statements  
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(1) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements, continued

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

In June 2022, GASB issues 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.

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. This Statement will be effective for fiscal years ending September 30, 2025.

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

**BELAU SUBMARINE CABLE CORPORATION**  
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Notes to Financial Statements  
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(2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. This statement also requires disclosure of formal policies related to deposit and investment risks.

*Deposits*

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- |            |  |
|------------|--|
| Category 1 | Deposits that are federally insured or collateralized with securities held by BSCC or its agent in BSCC's name;  |
| Category 2 | Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in BSCC's name; or                 |
| Category 3 | Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in BSCC's name and noncollateralized deposits. |

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, BSCC's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. BSCC does not have an investment and deposit policy for custodial credit risk.

For credit risk in the case of deposits, there is the risk that in the event of a bank failure, BSCC's deposits may not be returned to it. As of September 30, 2022 and 2021, the carrying amount of BSCC's total cash in bank was \$5,793,160 and \$5,293,830 with a corresponding bank balance of \$5,810,633 and \$5,336,618, respectively. From these deposits, \$250,000 at September 30, 2022 and 2021 was subject to coverage by FDIC. BSCC does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized and are subject to custodial credit risk.

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Notes to Financial Statements  
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(2) Deposits and Investments, Continued

*Investments*

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1      Investments that are insured or registered, or securities held by BSCC or its agent in BSCC's name;
- Category 2      Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in BSCC's name; or
- Category 3      Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in BSCC's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3. As of September 30, 2022, and 2021, BSCC did not have investments subject to GASB Statement No. 40.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2022 and 2021 are as follows:

	Estimated Useful Lives	Balance 9/30/2021	Additions	Transfers In (Out)	Balance 09/30/2022
Buildings and Improvements	5 - 25 yrs	\$ 702,187	\$ 9,586	\$ -	\$ 711,773
Plant and Equipment	5 - 10 yrs	2,820,212	12,613,352	-	15,433,564
Submarine Terminal Equipment	20 - 25 yrs	3,336,009	-	-	3,336,009
Submarine Cable	20 - 25 yrs	7,376,028	-	-	7,376,028
Support Equipment	3 - 5 yrs	552,523	-	-	552,523
Vehicles	3 - 5 yrs	35,748	33,996	-	69,744
		14,822,707	12,656,934	-	27,479,641
Accumulated depreciation		(3,387,014)	(1,060,629)	-	(4,447,643)
		11,435,693	11,596,305	-	23,031,998
Capital asset under construction		1,478,878	-	-	1,478,878
Net capital assets		<u>\$ 12,914,571</u>	<u>\$ 11,596,305</u>	<u>\$ -</u>	<u>\$ 24,510,876</u>

**BELAU SUBMARINE CABLE CORPORATION**  
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Notes to Financial Statements  
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**(3) Capital Assets, continued**

	Estimated Useful Lives	Balance 9/30/2020	Additions	Transfers In (Out)	Balance 09/30/2021
Buildings and Improvements	5 - 25 yrs	\$ 695,589	\$ 6,598	\$ -	\$ 702,187
Plant and Equipment	5 - 10 yrs	1,653,268	1,166,944	-	2,820,212
Submarine Terminal Equipment	20 - 25 yrs	3,336,009	-	-	3,336,009
Submarine Cable	20 - 25 yrs	7,376,028	-	-	7,376,028
Support Equipment	3 - 5 yrs	552,523	-	-	552,523
Vehicles	3 - 5 yrs	15,148	28,000	(7,400)	35,748
		13,628,565	1,201,542	(7,400)	14,822,707
Accumulated depreciation		(2,192,197)	(1,194,817)	-	(3,387,014)
		11,436,368	6,725	(7,400)	11,435,693
Capital asset under construction		665,126	813,752	-	1,478,878
Net capital assets		<u>\$ 12,101,494</u>	<u>\$ 820,477</u>	<u>\$ (7,400)</u>	<u>\$ 12,914,571</u>

**(4) Indefeasible Right of Use (IRU) Agreement**

In February 2016, BSCC and a third-party IRU provider entered into an agreement for the acquisition of the executive right to use the optical wavelength channels in the IRU provider's fiber between the Guam Cable Landing Station and the West Subsystem near the coast of Palau (the "Branching Unit"), as required for BSCC's use of capacity in such optical wavelength channels to transmit telecommunication traffic (the "Purchased Waves"); as well as the exclusive right to connect the submarine fiber optic cable spur to the Branching Unit and to connect to the optical add-drop multiplexer inside the Branching Unit.

The agreement is effective for 25 years starting on the date BSCC issues its notice of acceptance to the IRU provider of the first activated Purchased Wave's conformity to all applicable requirements (the "IRU RFS date").

Total purchase price is \$6.7 million and was fully paid as of September 30, 2018. The amortization of the IRU commenced in November 2017, which was the IRU RFS date. The Corporation recognized amortization expense in the amount of \$266,661 and \$266,661 for the years ended September 30, 2022 and 2021, respectively.

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Notes to Financial Statements  
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(5) Deferred Revenues

On May 7, 2020 BSCC entered into arrangement with Government of Australia's Department of Foreign Affairs and Trade to receive a cash grant in the amount of \$561,000 to assist BSCC with the costs of a marine survey for a second submarine fiber optic cable to the Republic of Palau. The grant was fully acquitted on July 9, 2021.

On June 3, 2020 BSCC entered into a grant agreement with the Commonwealth of Australia represented by the Department of Foreign Affairs and Trade under the Australian Infrastructure Financing Facility for the Pacific to provide funding in the amount of \$4,517,094 and \$850,000 that was received in advance for the acquisition of access rights to a Power Switched Branching Unit (PSBU) and future capacity on the ECHO cable network as of September 30, 2022 and 2021, respectively.

During the fiscal year ended September 30, 2021, BSCC received funds from U.S. Agency for International Development (USAID) Grant relating the PC2 Project totaling \$352,935 and \$235,290 which was recognized as deferred revenues as September 30, 2022 and 2021, respectively.

During March 2021, BSCC entered into an agreement with the Republic Palau to receive funding of \$7 million from Compact of Free Association (COFA) funds for BSCC's second cable project (PC2) to be provided by the Republic of Palau from Compact of Free Association funds. Grant funds advanced and not expended totaled \$1,030,566 as of September 30, 2022.

(6) Long-Term Debt

During March 2016, BSCC and the Asian Development Bank (ADB) entered into an agreement for the North Pacific Regional Connectivity Investment Project (Project Agreement), which provides for the establishment of a submarine cable connection from Palau to the submarine cable system owned by the SEA-US Consortium that connects to the international cable hub in Guam (the "Project").

Under the Project Agreement, ADB has agreed to:

- a) Lend ROP \$16,470,000 on the condition that the proceeds of the loan be made available to BSCC, which agrees to undertake certain obligations towards ADB under the agreement ("Ordinary Operations Loan Agreement"), and
- b) Lend ROP, in various currencies, equivalent to Special Drawing Rights (SDR 6,032,000) or \$8,530,000 on the condition that the proceeds of the loan be made available to BSCC, which agrees to undertake certain obligations towards ADB under the agreement ("Special Operations Loan Agreement").

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Notes to Financial Statements  
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(6) Long-Term Debt, Continued

Also, in March 2016, ROP executed a subsidiary loan agreement with BSCC to re-lend the amounts disbursed by ADB to ROP under the same terms and conditions provided in the Ordinary and Special Operations Loan Agreements.

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

	2022	2021
Loan payable under the Ordinary Operations Loan Agreement, guaranteed by the ROP government, with a 20-year term commencing on June 1, 2021, when the first principal repayment fell due, interest at LIBOR plus 0.50% per annum and payable every June 1 and December 1. Principal is to be repaid at 2.5% of the total principal amount outstanding on each payment date.	\$ 13,768,751	\$ 13,746,895
Loan payable under the Special Operations Loan Agreement, guaranteed by the ROP government, with a 20-year term after the grace period ends on June 1, 2021, when the first principal repayment of \$213,250 becomes due, interest at 2% per annum and payable every June 1 and December 1.	7,041,706	7,077,676
Loan payable to Japan Bank for International Corporation (JBIC) guaranteed by the ROP government, with a 10-year term with the first principal repayment of \$400,000 due semi-annually commencing June 2028, interest payable every June 19 and December 19.	3,593,236	-
Loan payable to Sumitomo Mitsui Banking Corporation (SMBC) guaranteed by the ROP government, with a 10-year term with the first principal repayment of \$400,000 due semi-annually commencing June 2023, interest payable every June 19 and December 19.	3,593,236	-
Long-term debt	\$ 27,996,929	\$ 20,824,571
Less current portion of long-term debt	400,000	-
	\$ 27,596,929	\$ 20,824,571

**BELAU SUBMARINE CABLE CORPORATION**  
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Notes to Financial Statements  
September 30, 2022 and 2021

(6) Long-Term Debt, Continued

As of September 30, 2022 and 2021, amounts available under the Ordinary and Special Operations Loan Agreements that may be drawn in subsequent years approximate \$2.7 million and \$1.5 million, respectively. Given the uncertainty in predicting when additional drawdowns will occur, presentation of future principal and interest amortization is not possible at this time. For the years ended September 30, 2022 and 2021, interest expense on the aforementioned long-term debt was \$446,494 and \$258,496, respectively.

During January 2021, BSCC and JBIC, with SMBC as a participating financial institution (collectively “the lenders”), entered into a term loan agreement. The loan facility, which is guaranteed by the Republic of Palau, has a maximum aggregate principal amount not exceeding \$8 million in two tranches as follows:

A tranche to be made available by JBIC in an agreement principal amount not exceeding \$4 million (Tranche A), and

A tranche to be made available by SMBC in an agreement principal amount not exceeding \$4 million (Tranche B).

The agreement provides disbursement procedures and approval process by the lenders and does not allow re-borrowing any part of the loan facility that is repaid; with the disbursement period expiring on the earliest of the date on which the loan facility is fully utilized or fully cancelled, or May 15, 2023, or such other date as the parties may otherwise negotiate and agree in writing.

As of September 30, 2022, interest rates on the JBIC and SMBC loans have not yet been determined. Prior to the drawdowns during the year ended September 30, 2022, the original commitment had interest ranging from 1.336% to 1.75%.

Loan repayment is semi-annual installments of \$400,000 (i.e., every June 19<sup>th</sup> and December 19<sup>th</sup>) from and including June 19, 2023 up to and including December 19, 2032, with the first 10 semi-annual payments made to Tranche B and the remaining 10 semi-annual payments made to Tranche A.

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September 30, 2022 and 2021

(7) Pension Plan

General Information About the Pension Plan:

*Plan Description:*

During the year ended September 30, 2021, BSCC commenced contributing to the Republic of Palau Civil Service Pension Trust Fund (the Fund), a defined benefit, cost-sharing multi-employer plan, which is a component unit of the ROP National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Fund was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987, and began operations October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2.

The Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Republic of Palau Civil Service Pension Plan, P.O. 1767, Koror, Palau 96940.

*Membership:*

The ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, are participating in the Fund. Membership consists of the following as of October 1, 2019 (the valuation date):

Inactive members or beneficiaries currently receiving benefits	1629
Inactive members entitled to but not yet receiving benefits	270
Inactive nonvested members	982
Active members	<u>3480</u>
Total members	<u><u>6361</u></u>

*Summary of the Principal Provisions of the Plan:*

Effective date: October 1, 1987

Plan Year: October 1, through September 30

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Notes to Financial Statements  
September 30, 2022 and 2021

(7) Pension Plan, Continued

General Information About the Pension Plan:

*Service:*

Vesting Service: Includes membership service and prior service credit.

Membership Service: A year of membership service is earned for a year of service rendered at a participating agency. Years of membership shall be rounded to the nearest one year. Membership includes accumulated sick leave and vacation leave.

Prior Service Credit: Persons becoming members of the Plan on October 1, 1987 are entitled to Prior Year Service Credit for services rendered as an employee of participating agencies, the Trust Territory of the Pacific Islands (TTPI), and the United States Naval Government after World War II and before the establishment of the TTPI.

Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after 30 years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least 20 years of government employment. A married member or a former member receiving a distribution of benefits under the Pension Fund receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions. Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty-year mandatory service provisions. These provisions were restored through RPPL 8-10 in October 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

In accordance with the directives of RPPL 5-7, which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made actuarially equivalent lump sum contributions". In accordance with RPPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year.

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Notes to Financial Statements  
September 30, 2022 and 2021

(7) Pension Plan, Continued

General Information About the Pension Plan:

*Pension Benefits, continued:*

Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Fund. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

Currently, normal benefits are paid monthly and are 2% of each member's average monthly salary for each year of credited total service up to a maximum of thirty years total service. The average annual salary is the average of the highest three consecutive fiscal years of compensation received by a member during his or her most recent then full fiscal years of service. For members who have not completed three consecutive fiscal years of employment during his or her most recent ten full fiscal years of service, the average annual salary is the average monthly salary during the term of the member's service multiplied by twelve.

The benefit amount that married members or unmarried members receive, who have elected to designate a beneficiary, is based on the normal benefit amount reduced by the following factors:

<u>Factor</u>	<u>If the Spouse or Beneficiary is:</u>
1.00	21 or more years older than the member
0.95	16 to 20 years older than the member
0.90	11 to 15 years older than the member
0.85	6 to 10 years older than the member
0.80	0 to 5 years younger than the member or 0 to 5 years older than the member
0.75	6 to 10 years younger than the member
0.70	11 to 15 years younger than the member
0.65	16 or more years younger than the member

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit pursuant to RPPL 9-2.

**BELAU SUBMARINE CABLE CORPORATION**  
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Notes to Financial Statements  
September 30, 2022 and 2021

(7) Pension Plan, Continued

General Information About the Pension Plan, continued:

*Pension Benefits, continued:*

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced according to the following schedule based on the age at which early retirement benefit payments begin:

- 1/12<sup>th</sup> per year for the first 3 years before age 60;
- plus an additional 1/18<sup>th</sup> per year for the next 3 years;
- plus an additional 1/24<sup>th</sup> per year for the next 5 years; and
- plus an additional 1/50<sup>th</sup> per year for each year in excess of 11 years.

Upon death of a member or former member with eligible survivors before commencement of the members' normal, early, or late retirement benefits or disability retirement benefits the following shall be payable:

- If the former member is not an employee at his or her date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.
- If the member is an employee at his or her date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefit.

Upon the death of a member or former member before commencement of his or her normal, early, or late retirement benefit or disability retirement benefit leaving no persons eligible for survivor benefits, the following shall be payable:

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year or more of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

**BELAU SUBMARINE CABLE CORPORATION**  
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Notes to Financial Statements  
September 30, 2022 and 2021

(7) Pension Plan, Continued

General Information About the Pension Plan, continued:

*Pension Benefits, continued:*

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become total and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

*Membership Contributions*

Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than fifteen years membership service may elect to receive a refund of all of his or her contributions. Subsequent changes in the percentage contributed by members may be made through an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Fund through payroll deduction.

*Employer and Other Contributions*

Employers are required to contribute an amount equal to that contributed by employees. Pursuant to RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic of Palau must from time to time contribute additional sums to the Fund in order to keep the Fund on a sound actuarial basis. RPPL No. 9-2, requires the ROP Government to make regular contributions to the Fund equal to the amount contributed by each and every employee of ROP. Additionally, an excise tax of 4 percent is levied against each non-citizen person transferring money out of ROP. The money transfer tax must be remitted to the Fund.

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Notes to Financial Statements  
September 30, 2022 and 2021

(7) Pension Plan, Continued

General Information About the Pension Plan, continued:

*Actuarial Assumptions and Other Inputs*

The total pension liability was determined by an actuarial valuation as of October 1, 2019, rolled forward on year to September 30, 2020, using the following actuarial assumptions and other inputs:

Actuarial Cost Method: Normal costs are calculated under the entry age normal method

Amortization Method: Level dollar, open with remaining amortization period of 30 years

Asset Valuation Method: Market Value of Assets

Long-term Expected Rate of Return: 6.74% per year, net of investment expenses, and price inflation

Municipal Bond Index Rate: 2.22%

Year fiduciary net position is projected to be depleted: 2025

Price Inflation: 2.5% per year

Interest on Member Contribution: 5% per year

Salary Increase: 3% per year

Expenses: \$300,000 annually added to normal cost

Mortality: RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years.

Termination of Employment: 5% for ages 20 to 39, none for all other ages.

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Notes to Financial Statements  
September 30, 2022 and 2021

(7) Pension Plan, Continued

General Information About the Pension Plan, continued:

*Actuarial Assumptions and Other Inputs, continued*

Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%

Retirement Age: 100% at age 60

Form of Payment: Single: Straight life annuity; Married: 100% joint and survivor

Marriage Assumption: 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.

Duty vs Non-Duty Related Disability: 100% duty related

Refund of Contributions: 80% terminated vested members elect a refund of contributions

*Investment Rate of Return*

The long-term expected rate of return on the Fund's investment of 6.74% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Notes to Financial Statements  
September 30, 2022 and 2021

(7) Pension Plan, Continued

General Information About the Pension Plan, continued:

*Actuarial Assumptions and Other Inputs, continued*

As of September 30, 2020, the arithmetic real rates of return for each major investment class are as follows:

Assets Class	Target Allocation	Expected Rate of Return
US Large Cap Value Equity	10%	8.70%
US Large Cap Growth Equity	10%	9.13%
Mature Markets Non-U.S. Equity	15%	9.19%
Emerging Markets Non-U.S. Equity	10%	12.52%
U.S. Core Fixed Income	35%	3.82%
Global Fixed Income	10%	3.40%
Global REIT	10%	8.33%
	100%	

*Discount Rate*

The discount rate used to measure the total pension liability was 2.28% at the current measurement date and 2.85% at the prior measurement date. The discount rate was determined using the current assumed rate of return of 6.74% until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2025. For years on or after 2025, the Municipal Bond Index Rate a discount rate of 2.22% was used. The Municipal Bond Index Rate from the prior measurement date was 2.81%.

*Sensitivity of Net Pension Liability to Changes in the Discount Rate*

The following schedule presents BSCC's proportionate share of the net pension liability as of September 30, 2020, calculated using the discount rate of 2.28%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (1.28%) or 1% higher (3.28%) from the current rate.

	1% Decrease 1.28%	Current Discount Rate 2.28%	1% Increase 3.28%
Net Pension Liability	\$224,446	\$192,325	\$165,831

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Notes to Financial Statements  
September 30, 2022 and 2021

(7) Pension Plan, Continued

General Information About the Pension Plan, continued:

*Deferred Outflows and Inflows of Resources*

At September 30, 2022 and 2021, BSCC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,473	\$ 5,088	\$ 6,473	\$ 5,088
Net difference between projected and actual earnings on pension plan investments	359	246	359	246
Change in assumptions	41,270	12,089	41,270	12,089
BSCC contributions subsequent to the measurement date	-	-	-	-
Changes in proportion and difference between the contribution and proportionate shares of contributions	<u>128,101</u>	<u>-</u>	<u>128,101</u>	<u>-</u>
Total	<u>\$ 176,203</u>	<u>\$ 17,423</u>	<u>\$ 176,203</u>	<u>\$ 17,423</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2020 will be recognized in pension expense as follows:

<u>Year ending September 30,</u>	
2021	\$ 28,895
2022	28,682
2023	26,751
2024	26,450
2025	27,959
Thereafter	<u>20,043</u>
	<u>\$ 158,780</u>

The most recent actuarial study conducted for the Palau Civil Service Pension Fund (“the Fund”) and related report has not been issued as of the date of this report. BSCC’s contributions to the Fund were \$10,942 and \$15,195 as of September 30, 2022 and 2021, respectively.

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Notes to Financial Statements  
September 30, 2022 and 2021

**(6) Long-Term Liabilities**

Long-term liabilities of BSCC consist solely of notes payable. The changes in long-term liabilities for the years ended September 30, 2022 and 2021 are as follows:

	Outstanding October 1, 2021	Increases	Decreases	Outstanding September 30, 2022	Current	Noncurrent
Note payable	20,824,571	\$ 7,208,328	\$ 35,970	\$ 27,996,929	\$ 400,000	\$ 27,596,929
Net pension liability	192,325	-	-	192,325	-	192,325
	<u>\$ 21,016,896</u>	<u>\$ 7,208,328</u>	<u>\$ 35,970</u>	<u>\$ 28,189,254</u>	<u>\$ 400,000</u>	<u>\$ 27,789,254</u>

  

	October 1, 2020	Increases	Decreases	Restated September 30, 2021	Current	Noncurrent
Note payable	20,244,149	580,422	\$ -	\$ 20,824,571	\$ -	\$ 20,824,571
Net pension liability	-	192,325	-	192,325	-	192,325
	<u>\$ 20,244,149</u>	<u>\$ 772,747</u>	<u>\$ -</u>	<u>\$ 21,016,896</u>	<u>\$ -</u>	<u>\$ 192,325</u>

**(7) Capacity Use, Lease and Other Commitments**

Commencing December 2017, BSCC leases telecommunications capacity with various customers located in the Republic of Palau under a three-year capacity use agreement with total quarterly customer payments in the amount of \$800,250.

Future minimum receipts under the capacity lease agreements are as follows:

Year ending September 30,

2023	\$ 3,201,000
2024	3,201,000
2025	<u>2,667,500</u>
	<u>\$ 9,069,500</u>

Effective December 2017, BSCC leases commercial space under a five-year lease agreement at an annual rate of \$3,498, payable in advance. The lease agreement has not been renewed as of September 30, 2022.

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Notes to Financial Statements  
September 30, 2022 and 2021

(7) Capacity Use, Lease and Other Commitments, Continued

Additionally, BSCC has entered into various third-party support agreements with terms ranging from 12 months to 7 years, as follows:

During October 2017, BSCC executed a capacity service agreement with a third-party provider for a period of 7 years at an estimated charge of \$4,800 per month.

In December 2017, BSCC executed a network operating center support service agreement with a third-party provider for a period of five years at an estimated annual charge of \$25,000 and a one-time fee of \$30,000.

In December 2017, BSCC executed a marine maintenance agreement with a third-party provider, renewable annually, at estimated annual fee of \$41,170.

In January 2018, BSCC executed a customer service support agreement with a third-party provider for a period of 7 years at an estimated monthly charge of \$9,500. Additionally, in October 2021, a second agreement was executed for five years at an estimated monthly charge of \$2,750.

Future commitments resulting from the service agreements are as follows:

<u>Year ending September 30,</u>	
2023	\$ 153,300
2024	147,000
2025	71,000
2026	<u>33,000</u>
	<u>\$ 404,300</u>

During December 2018, BSCC engaged a third-party to construct a fiber optic cable extension linking the Cable Landing Station at the Ngeremlengui Cable Landing Station Customer Access Point (CAP-N) to a new Capacity Access Point in Airai. The construction, which has a contract value of \$1.5 million, will be funded by the existing loan facilities with ADB. In April 2022, BSCC engaged the same third-party for additional services not covered by the original December 2018 agreement, with the intended completion date of December 2022 at an estimated contract value of \$1,25 million.

Additionally, during the year ended September 30, 2022, a contract variation on the Company's supply contract agreement with a third-party was executed resulting in an estimated price reduction of \$183,000.

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Notes to Financial Statements  
September 30, 2022 and 2021

(8) Fair Value of Financial Instruments

BSCC's financial instruments are cash, accounts receivable, accrued expenses and long-term debt. The recorded values for cash and accounts receivable approximates their fair value based on its short-term nature. The recorded value for the note payable approximates its fair value, as interest approximates market rates. The fair value of BSCC's long-term debt is determined using quoted market prices for those securities or similar financial instruments.

(9) Restatement

Subsequent to the issuance of BSCC's 2021 financial statements, the Republic of Palau's Civil Service Pension Trust Fund issued its report on the Schedule of Employer Allocation, Schedule of Pension Amounts by Employer, Other Pension Schedules which included BSCC. Management determined that the prior year accounts did not include its proportionate share of deferred inflows and deferred outflows from pension, net pension liability, and related pension costs. As a result of this determination, the 2021 financial statements have been restated from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
For the year ended September 30, 2021:			
Salaries and wages	\$ 333,105	\$ 33,545	\$ 366,650
Change in operating expenses	\$ 2,408,326	\$ 33,545	\$ 2,441,871
Change in operating income	\$ 678,514	\$ (33,545)	\$ 644,969
Change in net position	\$ 420,096	\$ (33,545)	\$ 386,551
For the year ended September 30, 2021:			
Deferred outflows of resources from pension	\$ -	\$ 176,203	\$ 176,203
Net pension liability	\$ -	\$ (192,325)	\$ (192,325)
Deferred inflows of resources from pension	\$ -	\$ (17,423)	\$ (17,423)
Net position	\$ 2,204,762	\$ (33,545)	\$ 2,171,217

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

Notes to Financial Statements  
September 30, 2022 and 2021

(10) Risk Management

BSCC is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters, employee health, dental and accident benefits. BSCC has elected to purchase commercial insurance coverage for claims arising from such matters.

BSCC is self-insured for underwater cables.

Claims expenditures and liabilities will be reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Losses, if reported, would include an estimate of claims that have been incurred but not reported. No losses as a result of these risks have occurred or have been reported during the year ended September 30, 2022 and 2021.

(11) Concentration of Risk

The Company leases its telecommunications capacity and derives its revenues from three customers in the Republic of Palau. The leases are under three-year capacity use agreements with extension options. The Company is potentially subject to concentrations of credit risk in its accounts receivable and revenues. Of the Company's three customers, one major customer, which is a government entity, accounted for approximately \$2.3 million or 77% of revenues for the year ended September 30, 2022. The Company expects to maintain this relationship with the customer.

During the year ended September 30, 2022, BSCC charged off \$1,349,400 from two of its customers, of which \$0.94 million was prior years' accounts receivables. Although the Company is directly affected by the financial condition of its customers, management does not believe significant credit risks exist at September 30, 2022.

(12) Subsequent Events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through April 11, 2023, which is the date the financial statements were available to be issued. There were no such events requiring disclosure or adjustment to the accompanying financial statements.

**BELAU SUBMARINE CABLE CORPORATION**

(A Component Unit of the Republic of Palau)

Required Supplemental Information (Unaudited)  
Schedule of Proportional Share of the Net Pension Liability  
Last 10 Fiscal Years\*

	<u>2020</u>
Civil Service Pension Trust Fund (Plan) total net pension liability	\$ 344,384,167
BSCC's proportionate share of the net pension liability	\$ 192,325
BSCC's proportionate share of the net pension liability	0.056%
BSCC'S covered-employee payroll**	\$ 34,250
BSCC's proportionate share of the net pension liability as a percentage of its covered employee payroll	561.53%
Plan Fiduciary net position as a percentage of the total pension liability	17.81%

\* This data is presented for those years for which information is available.

\*\* Covered-employee payroll data from the actuarial valuation date with one-year lag.

See accompanying Independent Auditors' Report.

**BELAU SUBMARINE CABLE CORPORTION**  
(A Component Unit of the Republic of Palau)

Required Supplemental Information (Unaudited)  
Schedule of Pension Contributions  
Last 10 Fiscal Years\*

	<u>2020</u>
Actuarially determined contribution	\$ 8,791
Contribution in relation to the actuarially determined contribution	<u>2,055</u>
Contribution (excess) deficiency	<u>\$ 6,736</u>
BSCC's covered-employee payroll	<u>\$ 34,250</u>
Contribution as a percentage of covered-employee payroll	6.00%

\* This data is presented for those years for which information is available.

\*\* Covered-employee payroll data from the actuarial valuation date with one-year lag.

See accompanying Independent Auditors' Report.

**BELAU SUBMARINE CABLE CORPORATION**  
**(A Component Unit of the Republic of Palau)**

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**INDEPENDENT AUDITORS' REPORT ON**  
**INTERNAL CONTROL AND ON COMPLIANCE**

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**Years Ended September 30, 2022 and 2021**



**INDEPENDENT AUDITORS' REPORT 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  
Belau Submarine Cable 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 Belau Submarine Cable Corporation (the Corporation), which comprise the statement of net position as of September 30, 2022 and 2021, and the related statements of revenues, expenses and changes in net position and the statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered BSCC's internal control over financial reporting (internal control) as a basis for designing 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 BSCC's internal control. Accordingly, we do not express an opinion on the effectiveness of BSCC'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 any 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 Belau Submarine Cable 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.



Koror, Republic of Palau  
April 11, 2023