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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

Years Ended September 30, 2023 and 2022

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

Financial Statements

Years Ended September 30, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Belau Submarine Cable Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Belau Submarine Cable Corporation (BSCC), a component unit of the Republic of Palau (ROP), as of and for the years September 30, 2023 and 2022, 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 financial position of BSCC at September 30, 2023 and 2022 and the changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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.

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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 45, and the Schedule of Pension Contributions on page 46, 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 June 21, 2024 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.

Burger Comer Magliari

Koror, Republic of Palau
June 21, 2024

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, 2023. 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, 2023. We encourage readers to consider the information presented in conjunction with the Corporation's financial statements and accompanying notes to the financial statements.

Belau Submarine Cable Corporation (BSCC) was established in 2015 to deliver state-of-the-art wholesale international broadband services for 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 (PC1) linking Palau to a branching unit on the SEA-US submarine cable system. SEA-US provides connectivity between mainland USA (via Guam and Hawaii) and the Philippines and Indonesia. PC1 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's 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 Airai 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, competed in November 2022. A further extension, from the Compact Road to Port Ollei was recently completed in Q2 2024.

In FY 2021, BSCC embarked on a project to build a second submarine fiber connection (PC2), this time from the Echo cable system currently under construction to a diverse landing point at Ngardmau in Palau (CAP-O, where O stands for Ongedechuul, 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. This project is now awaiting finalization of commercial arrangements to support the final splice to the Echo system.

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 reflect BSCC's operating activities, which are supported by revenues after Ready for Service was declared on December 7, 2017. This approach is intended to summarize and simplify the user's analysis of the 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 sixth year of operations during the fiscal year ended September 30, 2023.

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, 2023 and 2022. 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, 2023 and 2022. 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, 2023 and 2022. 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*

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

The original scope of the PC1 project was completed well under budget and ahead of schedule. The network was placed in service on December 7th 2017. Since a four-hour outage on May 23, 2018, network performance has been outstanding except for the four-day outage in July 2023 when the SEA-US cable's Guam landing segment was damaged. Total life-to-date outages on the BSCC network itself (including both the submarine and Palau fiber components) are less than half an hour.

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). Until PC2 is activated, there is a single product, wholesale capacity between Palau and Guam. In this 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 with the recently completed Port Ollei Fiber Extension) is $25 million. PC2 is budgeted to be $30.6M.

Sales have exceeded expectations and are currently at 11 Gbits/sec.

The COVID crisis impacted Palau seriously because the tourism industry, a fundamental contributor to the economy, was effectively stopped in March 2020, stalling capacity growth. BSCC cash receipts were impacted. BSCC customers faced pressure on their own cashflow as their commercial customers were 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 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. These arrangements were reviewed and updated in early 2024.

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

Management's Discussion and Analysis
September 30, 2023

Financial Statements for the Year Ended September 30, 2023 and 2022

Statements of Net Position

Assets:	2023	2022
Current assets	$ 6,065,263	$ 5,949,910
Capital assets, net	32,056,219	29,866,325
Other assets	61,204	25,333
Deferred outflows of resources from pension	176,203	176,203
Total assets	$ 38,358,889	$ 36,017,771
Liabilities and Net Position:		
Current liabilities	$ 9,740,209	$ 7,196,760
Long-term debt, net of current portion	27,410,212	27,596,929
Net pension liability	192,325	192,325
Deferred inflows of resources from pension	17,423	17,423
Net position	998,720	1,014,334
Total liabilities and net position	$ 38,358,889	$ 36,017,771

Financial Statements for the Year Ended September 30, 2023 and 2022, continued

Statements of Revenues and Expenses and Changes in Net Position

	2023	2022
Operating revenues	$ 3,172,962	$ 2,939,596
Operating expenses	2,394,253	3,650,069
Operating (loss) income	778,709	(710,473)
Nonoperating revenues (expenses), net	(794,323)	(446,410)
Change in net position	(15,614)	(1,156,883)
Net position, beginning of year	1,014,334	2,171,217
Net position, end of year	$ 998,720	$ 1,014,334

Statements of Cash Flows

	2023	2022
Net cash flows provided by operating activities	$ 1,279,096	$ 1,624,605
Net cash flows provided used in capital and related financing activities	(2,053,159)	(1,125,359)
Net cash flows from investing activities	84	84
Net change in cash	(773,979)	499,330
Cash, beginning of year	5,793,160	5,293,830
Cash, end of year	$ 5,019,181	$ 5,793,160
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 778,709	$ (710,473)
Net adjustments to reconcile operating income (loss) to net cash provided by operating activities	500,387	2,335,078
	$ 1,279,096	$ 1,624,605

The main movement in Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position items between FY 2023 and FY 2022 reflects reasonable growth considering the impact of COVID-19 on cash receipts.

BSCC was initially 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 US$25,000,000, as part of the North Pacific Regional Connectivity Investment Project:

3346-PAL 7th March 2016	Ordinary Loan	$16,470,000
3347-PAL 7th 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. BSCC is also servicing interest and principal obligations on PC2 debt – see below for details.

Economic Factors and Business Plan that will affect the Future

In most markets worldwide, 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 2024 – 2028 which is briefly discussed below.

The Plan includes the PC2 project, which commenced in 2021 and is currently expected to be completed by Q4 2025. The total PC2 project will cost $30.6M and connects the ECHO Cable to a new landing station at Ngardmau (CAP-O). The plan also includes further refinement of operational processes and strengthening of operational capability. The Business Plan is available for download on the BSCC website at belaucable.com.

PC2 Project Funding

On January 13th 2021, BSCC and ROP signed debt financing agreements with:

• Export Finance Australia (EFA)	$8.6M
• Japan Bank for International Cooperation (JBIC)	$4.0M
• Sumitomo Mitsui Banking Corporation (SMBC)	$4.0M

The balance of the $30.6M 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)	$1.5M
BSCC	$1.1M

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:

Rhinehart Silas
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, 2023 and 2022

ASSETS	2023	2022
Current assets:		
Cash	$ 5,019,181	$ 5,793,160
Accounts receivable	1,046,082	156,750
Total current assets	6,065,263	5,949,910
Capital assets:		
Depreciable capital asset, net	26,967,431	24,510,876
Indefeasible right of use, net	5,088,788	5,355,449
Other assets	61,204	25,333
Total capital assets, net	32,117,423	29,891,658
Deferred outflows of resources - pension	176,203	176,203
Total assets	$ 38,358,889	$ 36,017,771

LIABILITIES AND NET POSITION	2023	2022
Current liabilities:		
Current portion of long-term debt	$ 800,000	$ 400,000
Accrued expenses	523,824	335,165
Deferred income	8,416,385	6,461,595
Total current liabilities	9,740,209	7,196,760
Non-current liabilities:		
Long-term debt, net of current portion	27,410,212	27,596,929
Net pension liability	192,325	192,325
Total noncurrent liabilities	27,602,537	27,789,254
Total liabilities	37,342,746	34,986,014
Deferred inflows of resources - pension	17,423	17,423
Commitments		
Net position:		
Net investments in capital assets	1,869,396	(2,269,396)
Unrestricted	(870,676)	3,283,730
Total net position	998,720	1,014,334
Total liabilities and net position	$ 38,358,889	$ 36,017,771

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, 2023 and 2022

	2023	2022
Revenue	$ 3,172,962	$ 2,939,596
Operating expenses:		
Depreciation and amortization	1,236,931	1,336,884
Salaries and wages	431,914	312,496
Professional fees	106,237	62,703
Customer service center support	80,690	148,427
Taxes	72,714	89,801
Marine maintenance	57,974	52,549
Travel	54,615	13,220
Network operating center	45,831	10,027
Capacity purchase	45,254	57,382
Rent	43,760	44,768
Utilities	41,216	21,641
Communications	38,703	22,836
Insurance	26,689	30,412
Office supplies	6,290	5,270
Bank service charges	4,882	5,916
Meals and entertainment	3,669	2,339
Director fees	2,050	6,150
Bad debts	-	1,349,400
Miscellaneous	94,834	77,848
Total operating expenses	2,394,253	3,650,069
Operating (loss) income	778,709	(710,473)
Nonoperating revenues (expense):		
Interest expense	(794,407)	(446,494)
Interest income	84	84
Total nonoperating revenues (expense), net	(794,323)	(446,410)
Change in net position	(15,614)	(1,156,883)
Net position, beginning of year	1,014,334	2,171,217
Net position, end of year	$ 998,720	$ 1,014,334

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash received from customers for services	$ 2,247,759	$ 2,497,442
Cash paid to suppliers for goods and services	(968,663)	(872,837)
Net cash provided by operating activities	1,279,096	1,624,605
Cash flows from capital and related financing activities:		
Acquistion of capital assets	(3,426,825)	(12,666,528)
Proceeds from long-term debt	1,920,265	8,316,289
Repayment of long-term debt	(1,706,982)	(1,143,931)
Grant proceeds	1,954,790	4,815,305
Interest paid on long-term debt	(794,407)	(446,494)
Net cash used in capital and related financing activities	(2,053,159)	(1,125,359)
Cash flows from investing activities:		
Interest received on cash in bank	84	84
Net cash provided by investing activities	84	84
Net change in cash	(773,979)	499,330
Cash, beginning of year	5,793,160	5,293,830
Cash, end of year	$ 5,019,181	$ 5,793,160
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ 778,709	$ (710,473)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,236,931	1,336,884
Bad debts	-	1,349,400
Decrease (increase) in accounts receivable	(889,999)	(575,750)
(Increase) decrease in other assets	(35,204)	63,596
Increase in accrued expenses	188,659	160,948
	$ 1,279,096	$ 1,624,605

See accompanying notes to financial statements.

(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:

(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, 2023 and 2022.

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, 2023 and 2022.

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, 2023 and 2022.

(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, 2023 and 2022, respectively.

Capital Asset Under Construction

BSCC has been progressing the development of a second submarine cable connection (the PC2 project) has spent $347,732 and $813,752 on progressing the project to financing stage as of September 30, 2023 and 2022, respectively. 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. The project cost incurred and expended on the PC2 project totalled $10,663,793 as of September 30, 2023.

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, 2023 and 2022, 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.

(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.

(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

Palau Corporation Income Tax

Pursuant to the Unified Tax Act promulgated by the Palau Government, the Company is not subject to corporate income tax.

The Republic of Palau passed Public Law 11-11 to comprehensively reform and modernize the tax code, which introduced the Palau Goods and Services Tax. The BPT system replaces Gross Receipts Tax. The new tax system imposes a 10% tax on all goods and services, which the Company must collect and remit to the government. Eligible businesses are also required to remit quarterly Business Profit Tax payments equal to 2% of quarterly revenues. BPT allows an entity to carry forward losses during its tax year to offset future profits for the next 4 years. The new tax changes became effective as of January 1, 2023.

New Accounting Standards

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement aims 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 contract's payment provisions. In accordance with GASB Statement No. 95, GASB Statement No. 87, the implementation of this Statement did not have a material effect on the financial statements for the year ended September 30, 2022.

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

New Accounting Standards, continued

In May 2019, GASB issued Statement No. 91 *Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

GASB Statement No. 91 was effective for the fiscal year ending September 30, 2023. Management does not believe that implementation of this statement had a material effect on the financial statements.

In January 2020, GASB issued Statement No. 92. *Omnibus 2020.* The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other than postemployment benefit (OPEB) plan; applicability of Statement No. 73 and 84 to postemployment benefits, measurements of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers of excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. GASB Statement No. 92 was effective for the fiscal year ending September 30, 2022. Management does not believe that implementation of this statements had a material effect on the financial statements.

In April 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates* (IBOR). The primary objective of the Statement is to address those and other accounting and financial reporting implications of the replacement of IBOR. GASB Statement No. 93 was effective for the fiscal year ending September 30, 2022. Management does not believe that implementation of this statements had a material effect on the financial statements.

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

New Accounting Standards, continued

In March 2020, GASB issued Statement No. 94, *Public-private and Public-public Partnership Arrangements* (PPPs). The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). GASB Statement No. 94 will be effective for the fiscal year beginning after September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements* (SBITAs). 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. GASB Statement No. 96 is effective for fiscal years beginning after June 15, 2022. Management does not believe that implementation of this statement had a material effect on the financial statements.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new ronounncement.

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

New Accounting Standards, continued

This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Management does not believe that the adoption of GASB Statement No. 100 had a material effect on the financial statements.

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.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences.

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

New Accounting Standards, continued

However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

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

New Accounting Standards, continued

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint.
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Instruments*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

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

New Accounting Standards, continued

This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed.

This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

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

New Accounting Standards, continued

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this Statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

(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, 2023 and 2022, the carrying amount of BSCC's total cash in bank was $5,019,181 and $5,793,160 with a corresponding bank balance of $5,019,181 and $5,810,633, respectively. From these deposits, $250,000 at September 30, 2023 and 2022 was subject to coverage by FDIC and the remaining balance of $4,269,181 is uninsured. 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.

(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, 2023, and 2022, BSCC did not have investments subject to GASB Statement No. 40.

(3) Capital Assets

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

	Estimated Useful Lives	Balance 9/30/2022	Additions	Transfers In (Out)	Balance 09/30/2023
Buildings and Improvements	5 - 25 yrs	$ 711,773	$ 21,721	$ -	$ 733,494
Plant and Equipment	5 - 10 yrs	15,433,564	3,385,105	-	18,818,669
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	69,744	19,999	-	89,743
		27,479,641	3,426,825	-	30,906,466
Accumulated depreciation		(4,447,643)	(970,270)	-	(5,417,913)
		23,031,998	2,456,555	-	25,488,553
Capital asset under construction		1,478,878	-	-	1,478,878
Net capital assets		$ 24,510,876	$ 2,456,555	$ -	$ 26,967,431

(3) Capital Assets, continued

	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		$ 12,914,571	$ 11,596,305	$ -	$ 24,510,876

(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, 2023 and 2022, respectively.

(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, 2023 and 2022, 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 $252,075 and $352,935 which was recognized as deferred revenues as September 30, 2023 and 2022, 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 $1,702,715 and $1,030,566 as of September 30, 2023 and 2022, respectively.

(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").

(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, 2023 and 2022 is as follows:

	2023	2022
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 SOFR 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.	$ 13,943,341	$ 13,768,751
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.	7,132,667	7,041,706
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.	3,767,102	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.	3,367,102	3,593,236
Long-term debt	$ 28,210,212	$ 27,996,929
Less current portion of long-term debt	800,000	400,000
	$ 27,410,212	$ 27,596,929

(6) Long-Term Debt, Continued

As of September 30, 2023 and 2022, 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, 2023 and 2022, interest expense on the aforementioned long-term debt was $794,407 and $446,494, 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, 2023, interest rates on the JBIC and SMBC loans have not yet been determined. Prior to the drawdowns during the year ended September 30, 2023, 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 19th and December 19th) 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.

(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	3480
Total members	6361

Summary of the Principal Provisions of the Plan:

Effective date: October 1, 1987
Plan Year: October 1, through September 30

(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 of 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.

(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:

Factor	If the Spouse or Beneficiary is:
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.

(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:

- $1/12^{th}$ per year for the first 3 years before age 60;
- plus an additional $1/18^{th}$ per year for the next 3 years;
- plus an additional $1/24^{th}$ per year for the next 5 years; and
- plus an additional $1/50^{th}$ 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.

(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.

(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.

(7) Pension Plan, Continued

General Information About the Pension Plan, continued:

Actuarial Assumptions and Other Inputs, continued

Disability:

Age	Disability
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.

(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

(7) Pension Plan, Continued

General Information About the Pension Plan, continued:

Deferred Outflows and Inflows of Resources

At September 30, 2023 and 2022, 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	128,101	-	128,101	-
Total	$ 176,203	$ 17,423	$ 176,203	$ 17,423

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:

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

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 $15,683 and $10,942 as of September 30, 2023 and 2022, respectively.

(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, 2023 and 2022 are as follows:

	Outstanding October 1, 2022	Increases	Decreases	Outstanding September 30, 2023	Current	Noncurrent
Notes payable	27,996,929	$ 1,920,265	$ 1,706,982	$ 28,210,212	$ 800,000	$ 27,410,212
Net pension liability	192,325	-	-	192,325	-	192,325
	$ 28,189,254	$ 1,920,265	$ 1,706,982	$ 28,402,537	$ 800,000	$ 27,602,537

	Outstanding October 1, 2021	Increases	Decreases	Outstanding September 30, 2022	Current	Noncurrent
Notes 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
	$ 21,016,896	$ 7,208,328	$ 35,970	$ 28,189,254	$ 400,000	$ 27,789,254

(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,	
2024	$ 3,201,000
2025	2,667,500
	$ 5,868,500

(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:

Year ending September 30,	
2024	$ 147,000
2025	71,000
2026	33,000
	$ 251,000

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.

(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.

(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, 2023 and 2022.

(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, 2023. 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, 2023 and 2022.

(12) Subsequent Events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through June 21, 2024, 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 Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

	2020
Civil Service Pension Trust Fund (Plan) total net pension liability	$ 344,384,167
BSCC proportionate share of the net pension liability	$ 192,325
BSCC 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 pencentage of the total pension liability	8.42%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with a one-year lag.

See accompanying independent auditor's report.

Belau Submarine Cable Corporation
(A Component Unit of the Republic of Palau)

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

		2020
Actuarially determined contribution	$	8,791
Contribution in relation to the actuarially determined contribution		2,055
Contribution (excess) deficiency	$	6,736
BSCC's covered-employee payroll**	$	34,250
BSCC's proportionate share of the net pension liability		6.00%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with a one-year lag.

See accompanying independent auditor's report.

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

Years Ended September 30, 2023 and 2022

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*

Management and the 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, 2023, 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 June 21, 2024.

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.

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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.

Burger Comer Maglia

Koror, Republic of Palau
June 21, 2024