

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

Years Ended September 30, 2024 and 2023

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

Financial Statements

Years Ended September 30, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023 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.

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 41, and the Schedule of Pension Contributions on page 42, 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 February 28, 2025, 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, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of BSCC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BSCC's internal control over financial reporting and compliance.



Koror, Republic of Palau
February 28, 2025

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

Management's Discussion and Analysis
September 30, 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, 2024. 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, 2024. We encourage readers to consider the information presented in conjunction with the Corporation's financial statements and accompanying notes to the financial statements.

BSCC was established in 2015 to deliver state-of-the-art wholesale international broadband services for the people of Palau. A low latency submarine fiber optic cable (PC1) linking Palau to a branching unit on the SEA-US submarine cable system. SEA-US was established with the support of the Asian Development Bank (ADB), providing 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.

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, which was completed in 2022. A new permanent access point at the BSCC Technical Center at the Airai airport site, (CAP-A), which eliminated 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, was completed in November 2022. A further extension, from the Compact Road to Port Ollei was recently completed in Q2 2024.

In 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 were all completed in 2024. The cable is laid from the beach pit to the Echo branching unit, awaiting final splice. This project is now awaiting the 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. The Statements of Revenues, Expenses, and Changes in Net Position reflect BSCC's operating activities, which are supported by current revenues. This approach is intended to summarize and simplify the user's analysis of the cost of various BSCC services to the public.

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

Management's Discussion and Analysis
September 30, 2024

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 supported by 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 a license to operate a wholesale network in ROP 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 seventh year of operations during the fiscal year ended September 30, 2024.

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, 2024 and 2023. 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* reflect the results of operations and other changes for the year ended September 30, 2024 and 2023. 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, 2024 and 2023. 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.

BELAU SUBMARINE CABLE CORPORATION
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Management's Discussion and Analysis
September 30, 2024

Current Status

The PC1 project was completed in 2017. The performance of the 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) was \$25 million. PC2 is budgeted to be \$30.6M.

Sales of capacity 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. A one-off charge against bad debts of \$1,349,400 was recorded against FY 2022 as a consequence of the COVID impacts.

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

Management's Discussion and Analysis
September 30, 2024

Financial Statements for the Years Ended September 30, 2024 and 2023

Statements of Net Position

Assets:	2024	2023
Current assets	\$ 4,792,509	\$ 6,123,587
Capital assets, net	32,616,886	32,056,219
Right-of-use assets, net	781,965	-
Other assets	2,880	2,880
Deferred outflows of resources from pension	145,048	176,203
Total assets	<u>\$ 38,339,288</u>	<u>\$ 38,358,889</u>
 Liabilities and Net Position:		
Current liabilities	\$ 10,156,911	\$ 9,340,209
Long-term debt, net of current portion	26,298,787	27,810,212
Net pension liability	172,140	192,325
Lease liabilities, net of current portion	790,549	
Deferred inflows of resources from pension	37,617	17,423
Net position	883,284	998,720
Total liabilities and net position	<u>\$ 38,339,288</u>	<u>\$ 38,358,889</u>

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

Management's Discussion and Analysis
September 30, 2024

Financial Statements for the Years Ended September 30, 2024 and 2023, continued

Statements of Revenues and Expenses and Changes in Net Position

	2024	2023
Operating revenues	\$ 3,201,000	\$ 3,172,962
Operating expenses	<u>2,460,919</u>	<u>2,394,253</u>
Operating (loss) income	740,081	778,709
Nonoperating revenues (expenses), net	<u>(836,150)</u>	<u>(794,323)</u>
Change in net position	(96,069)	(15,614)
Net position, beginning of year	998,720	1,014,334
Right-of-use adjustment to net position	<u>(19,367)</u>	<u>-</u>
Net position, end of year	<u>\$ 883,284</u>	<u>\$ 998,720</u>

Statements of Cash Flows

	2024	2023
Net cash flows provided by operating activities	\$ 2,447,084	\$ 1,279,096
Net cash flows provided used in capital and related financing activities	(3,528,441)	(2,053,159)
Net cash flows from investing activities	<u>84</u>	<u>84</u>
Net change in cash	(1,081,273)	(773,979)
Cash, beginning of year	<u>5,019,181</u>	<u>5,793,160</u>
Cash, end of year	<u>\$ 3,937,908</u>	<u>\$ 5,019,181</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 740,081	\$ 778,709
Net adjustments to reconcile operating income to net cash provided by operating activities	<u>1,707,003</u>	<u>500,387</u>
	<u>\$ 2,447,084</u>	<u>\$ 1,279,096</u>

The main movement in the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position items between FY 2024 and FY 2023 reflects the continued 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 ADB via Republic of Palau, totaling US\$25M, as part of the North Pacific Regional Connectivity Investment Project:

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

BELAU SUBMARINE CABLE CORPORATION
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Management's Discussion and Analysis
September 30, 2024

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 sustainable tourism resumes.

BSCC developed a Business Plan for fiscal years 2025 – 2029 which is briefly discussed below.

The Plan includes the PC2 project, which commenced in 2021 and is currently expected to be completed and ready for service in the second half of 2026. 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 <https://www.belaucable.com>.

PC2 Project Funding

On January 13, 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, 2024 and 2023

<u>ASSETS</u>	<u>2024</u>	<u>2023</u>
Current assets:		
Cash	\$ 3,937,910	\$ 5,019,181
Accounts receivable	818,822	1,046,082
Prepaid expenses	35,777	58,324
Total current assets	<u>4,792,509</u>	<u>6,123,587</u>
Capital assets:		
Depreciable capital asset, net	27,794,759	26,967,431
Indefeasible right of use, net	4,822,127	5,088,788
Right-of-use asset, net of amortization	781,965	-
Other assets	2,880	2,880
Total capital assets, net	<u>33,401,731</u>	<u>32,059,099</u>
Deferred outflows of resources - pension	<u>145,048</u>	<u>176,203</u>
Total assets	<u>\$ 38,339,288</u>	<u>\$ 38,358,889</u>
 <u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term debt	\$ 800,000	\$ 800,000
Accrued expenses	249,321	419,611
Taxes payable	97,933	104,213
Lease liabilities	11,704	-
Deferred income	8,997,953	8,416,385
Total current liabilities	<u>10,156,911</u>	<u>9,740,209</u>
Non-current liabilities:		
Long-term debt, net of current portion	26,298,787	27,410,212
Lease liabilities, net of current portion	790,549	-
Net pension liability	172,140	192,325
Total noncurrent liabilities	<u>27,261,476</u>	<u>27,602,537</u>
Total liabilities	<u>37,418,387</u>	<u>37,342,746</u>
Deferred inflows of resources - pension	<u>37,617</u>	<u>17,423</u>
Commitments		
Net position:		
Net investments in capital assets	695,972	1,869,396
Unrestricted	187,312	(870,676)
Total net position	<u>883,284</u>	<u>998,720</u>
Total liabilities and net position	<u>\$ 38,339,288</u>	<u>\$ 38,358,889</u>

See accompanying notes to financial statements.

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

Statements of Revenues and Expenses and Changes in Net Position

Years Ended September 30, 2024 and 2023

	2024	2023
Revenue	<u>\$ 3,201,000</u>	<u>\$ 3,172,962</u>
Operating expenses:		
Depreciation and amortization	1,228,181	1,236,931
Salaries and wages	361,952	431,914
Management support services	172,800	-
Professional fees	85,104	106,237
Customer service center support	119,129	80,690
Tax and licenses	(12,585)	72,714
Marine maintenance	62,380	57,974
Operations and maintenance	47,987	34,354
Repairs and maintenance	20,603	11,385
Travel	67,571	54,615
Network operating center	21,858	45,831
Capacity purchase	34,430	45,254
Lease expense	18,282	-
Rent	(11,162)	43,760
Utilities	45,567	41,216
Communications	52,920	38,703
Insurance	29,143	26,689
Office supplies	28,999	6,290
Bank service charges	4,861	4,882
Meals and entertainment	3,360	3,669
Director fees	2,950	2,050
Security and gardening	26,000	27,085
Miscellaneous	<u>50,589</u>	<u>22,010</u>
Total operating expenses	<u>2,460,919</u>	<u>2,394,253</u>
Operating income	<u>740,081</u>	<u>778,709</u>
Nonoperating revenues (expense):		
Interest expense	(836,236)	(794,407)
Interest income	<u>86</u>	<u>84</u>
Total nonoperating revenues (expense), net	<u>(836,150)</u>	<u>(794,323)</u>
Change in net position	(96,069)	(15,614)
Net position, beginning of year	998,720	1,014,334
Right-of-use adjustment to retained earnings	<u>(19,367)</u>	<u>-</u>
Net position, beginning of year, as adjusted	<u>979,353</u>	
Net position, end of year	<u>\$ 883,284</u>	<u>\$ 998,720</u>

See accompanying notes to financial statements.

BELAU SUBMARINE CABLE CORPORATION
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Statements of Cash Flows
Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Cash received from customers for services	\$ 3,428,260	\$ 2,247,759
Cash paid to suppliers for goods and services	<u>(981,176)</u>	<u>(968,663)</u>
Net cash provided by operating activities	<u>2,447,084</u>	<u>1,279,096</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(1,788,847)	(3,426,825)
Proceeds from long-term debt	884,327	1,920,265
Repayment of long-term debt	(1,995,753)	(1,706,982)
Grant proceeds	581,568	1,954,790
Interest paid on long-term debt	<u>(1,209,736)</u>	<u>(794,407)</u>
Net cash used in capital and related financing activities	<u>(3,528,441)</u>	<u>(2,053,159)</u>
Cash flows from investing activities:		
Interest received on cash in bank	<u>86</u>	<u>84</u>
Net cash provided by investing activities	<u>86</u>	<u>84</u>
Net change in cash	(1,081,271)	(773,979)
Cash, beginning of year	<u>5,019,181</u>	<u>5,793,160</u>
Cash, end of year	<u>\$ 3,937,910</u>	<u>\$ 5,019,181</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating income	\$ 740,081	\$ 778,709
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,228,181	1,236,931
Pension cost	31,164	-
Lease expense	18,282	-
(Increase) decrease in assets:		
Accounts receivable	227,260	(889,999)
Prepaid expenses	22,547	(35,204)
Increase (decrease) in liabilities:		
Accrued expenses	170,289	84,446
Taxes payable	<u>9,280</u>	<u>104,213</u>
	<u>\$ 2,447,084</u>	<u>\$ 1,279,096</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2024 and 2023

(1) Organization and Summary of Significant Accounting Policies

Organization

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

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

Basis of Accounting

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

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

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

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

Notes to Financial Statements
September 30, 2024 and 2023

(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, 2024 and 2023.

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, 2024 and 2023.

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, 2024 and 2023.

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

Notes to Financial Statements
September 30, 2024 and 2023

(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 \$961,520 and \$970,270 for the years ended September 30, 2024 and 2023, respectively.

Capital Asset Under Construction

On January 13, 2021, BSCC entered into debt financing agreements with the Japan Bank for International Cooperation, Sumitomo Mitsui Banking Corporation, and Export Finance Australia to fund the construction of a second Palau submarine cable connection, known as the PC2 Project. The total project cost is estimated at \$30.6 million and will establish a connection between the ECHO Cable and a new landing station at Ngardmau (CAP-O). The project is currently anticipated to be completed by the third quarter of 2026. As of September 30, 2024, total incurred and expended costs for the PC2 Project amount to \$15,392,615.

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.

Right-to-Use Assets

Right-to-use (RTU) assets are recognized at the lease commencement date and represent the BSCC's right to use an underlying asset for the lease term. RTU assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement and initial direct costs. Options to renew or terminate the lease are recognized as part of RTU assets and lease liabilities when it is reasonably certain the options will be exercised.

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.

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
September 30, 2024 and 2023

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

Impairment of Capital Assets, continued

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, 2024 and 2023, 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.

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 and the stand-alone financial report which is available at its office site at cspp@palaunet.com.

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.

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Notes to Financial Statements
September 30, 2024 and 2023

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

Pensions, continued

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.

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

Taxes

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.

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

New Accounting Standards

Effective October 01, 2023, the Company implemented GASB No. 87, *Leases*, which requires the recognition of lease assets and liabilities for all leases with terms greater than 12 months. This implementation has resulted in a change in the accounting treatment for leases previously classified as operating leases. Under GASB 87, a lease is defined as a contract that conveys control of the right to use a nonfinancial asset for a period of time in exchange for consideration. The Company evaluates lease agreements based on this definition and recognizes the following:

- Lessee Accounting: A lease liability is recorded at the present value of future lease payments, with a corresponding right-of-use asset amortized over the lease term.
- Lessor Accounting: A lease receivable is recorded for the present value of expected lease payments, along with deferred inflow of resources, which is recognized as revenue over the lease term.

Lease liabilities and receivables are measured using the present value of lease payments over the lease term, discounted using the incremental borrowing rate of the Company when an implicit rate is not available.

The Company has elected the short-term lease recognition exemption for all applicable classes of underlying assets. Leases with an initial term of 12 months or less, that do not include an option to purchase the underlying asset that we are reasonably certain to exercise, are not recorded on the balance sheet.

Upon implementation of GASB 87, the Company recorded additional net lease assets and lease liabilities of approximately \$794,565 and \$813,932, respectively. The difference between the lease assets and lease liabilities was recorded as an approximate \$19,367 reduction to beginning net position. The adoption of the new standard did not materially impact the Company's net income and had no impact on cash flows.

The implementation of GASB Statement No. 87 had the following effect on net position as reported September 30, 2024:

Net position October 1, 2023	\$ 998,720
Adjustments:	
Net book value - leased asset	794,565
Lease liability	<u>(813,932)</u>
Net adjustments	<u>(19,367)</u>
Restated net position October 1, 2023	<u>\$ 979,353</u>

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
September 30, 2024 and 2023

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

New Accounting Standards, continued

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of the Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement were effectively immediately, while other requirements are effective for fiscal years beginning after June 15, 2022 and June 15, 2023, respectively. Adoption of this Statement did not have a material impact on BSCC's 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. 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. BSCC adopted this Statement effective October 1, 2023. Adoption of this Statement did not have a material impact on BSCC's 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.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of the Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2024. Adoption of this Statement did not have material impact on BSCC's 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. 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.

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
September 30, 2024 and 2023

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

New Accounting Standards, continued

GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The primary objective of this Statement is to improve users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. 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.

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
September 30, 2024 and 2023

(2) Deposits and Investments, Continued

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, 2024 and 2023, the carrying amount of BSCC's total cash in bank was \$3,937,910 and \$5,019,181 with a corresponding bank balance of \$3,937,910 and \$5,019,187, respectively. From these deposits, \$250,000 at September 30, 2024 and 2023 was subject to coverage by FDIC and the remaining balance of \$3,687,190 and \$4,769,187, respectively 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.

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, 2024, and 2023, BSCC did not have investments subject to GASB Statement No. 40.

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

Capital asset activity for the years ended September 30, 2024 and 2023 are as follows:

	Estimated Useful Lives	Balance 9/30/2023	Additions	Transfers In (Out)	Balance 09/30/2024
Buildings and Improvements	5 - 25 yrs	\$ 733,494	\$ -	\$ -	\$ 733,494
Plant and Equipment	5 - 10 yrs	5,408,838	1,284,941	-	6,693,779
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	89,743	-	-	89,743
		17,496,635	1,284,941	-	18,781,576
Accumulated depreciation		(5,417,913)	(961,519)	-	(6,379,432)
		12,078,722	323,422	-	12,402,144
Capital asset under construction		14,888,709	503,906	-	15,392,615
Net capital assets		<u>\$ 26,967,431</u>	<u>\$ 827,328</u>	<u>\$ -</u>	<u>\$ 27,794,759</u>

	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	3,978,108	1,430,730	-	5,408,838
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
		16,024,185	1,472,450	-	17,496,635
Accumulated depreciation		(4,447,643)	(970,270)	-	(5,417,913)
		11,576,542	502,180	-	12,078,722
Capital asset under construction		12,934,335	1,954,374	-	14,888,709
Net capital assets		<u>\$ 24,510,877</u>	<u>\$ 2,456,554</u>	<u>\$ -</u>	<u>\$ 26,967,431</u>

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Notes to Financial Statements
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(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, 2024 and 2023, respectively.

(5) Deferred Revenues

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 received in advance for the acquisition of access rights to a Power Switched Branching Unit (PSBU) and future capacity on the ECHO cable network totaled \$5,078,094 as of September 30, 2024 and 2023, respectively.

BSCC received funds from U.S. Agency for International Development (USAID) Grant relating the PC2 Project totaling current year funding in the amount \$252,075 and \$352,935 which was recognized as deferred revenues as September 30, 2024 and 2023, respectively. The cumulative funding received as of September 30, 2024 and 2023 totaled \$764,692 and \$605,010, 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 \$3,155,167 and \$1,702,715 as of September 30, 2024 and 2023, respectively.

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
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(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”).

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.

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
September 30, 2024 and 2023

(6) Long-Term Debt, Continued

Long-term debt at September 30, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
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.	\$ 13,836,523	\$ 13,943,341
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.	6,928,060	7,132,667
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	3,767,102
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.	<u>2,567,102</u>	<u>3,367,102</u>
Long-term debt	27,098,787	28,210,212
Less current portion of long-term debt	<u>800,000</u>	<u>800,000</u>
	<u>\$ 26,298,787</u>	<u>\$ 27,410,212</u>

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
September 30, 2024 and 2023

(6) Long-Term Debt, Continued

As of September 30, 2024 and 2023, 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. As of September 30, 2024, the ADB loans were fully drawdown. For the years ended September 30, 2024 and 2023, interest expense on the aforementioned long-term debt was \$836,236 and \$794,407, 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, 2024, the interest rates on the Company's SMBC and JBIC loan facilities were as follows:

- SMBC: Daily compounded Secured Overnight Financing Rate (SOFR) plus 0.42826%, with an additional margin of 1.30%.
- JBIC: Commercial Interest Reference Rate (CIRR) or 1.63% plus a margin of 1.30%, resulting in a total interest rate of 2.93%.

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.

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
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(7) Long-Term Liabilities

The changes in long-term liabilities for the years ended September 30, 2024 and 2023 are as follows:

	Outstanding October 1, 2023	Decrease	Increase	Outstanding September 30, 2024	Current	Noncurrent
Notes payable	\$ 28,210,212	\$ 1,995,752	\$ 884,327	\$ 27,098,787	\$ 800,000	\$ 26,298,787
Lease liabilities	-	-	802,252	802,252	11,704	790,548
Net pension liability	<u>192,325</u>	<u>20,185</u>	<u>-</u>	<u>172,140</u>	<u>-</u>	<u>172,140</u>
	<u>\$ 28,402,537</u>	<u>\$ 2,015,937</u>	<u>\$ 1,686,579</u>	<u>\$ 28,073,179</u>	<u>\$ 811,704</u>	<u>\$ 27,261,475</u>

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

(8) 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.

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
September 30, 2024 and 2023

(8) Pension Plan, Continued

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, 2021 (the valuation date):

Inactive members or beneficiaries currently receiving benefits	1,730
Inactive members entitled to but not yet receiving benefits	404
Inactive nonvested members	1,105
Active members	<u>3,423</u>
 Total members	 <u>6,662</u>

Summary of the Principal Provisions of the Plan:

Effective date: October 1, 1987

Plan Year: October 1, through September 30

Service:

Vesting Service: Includes membership service and prior service credit.

Service, continued

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.

BELAU SUBMARINE CABLE CORPORATION
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(8) Pension Plan, Continued

Pension Benefits

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.

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 Plan. 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 ten 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.

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

Notes to Financial Statements
September 30, 2024 and 2023

(8) Pension Plan, Continued

Pension Benefits, continued

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

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

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

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:

- $1/12^{\text{th}}$ per year for the first 3 years before age 60;
- plus an additional $1/18^{\text{th}}$ per year for the next 3 years;
- plus an additional $1/24^{\text{th}}$ per year for the next 5 years; and
- plus an additional $1/50^{\text{th}}$ per year for each year in excess of 11 years.

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
September 30, 2024 and 2023

(8) Pension Plan, Continued

Pension Benefits, continued:

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.

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.

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

Notes to Financial Statements
September 30, 2024 and 2023

(8) Pension Plan, Continued

Pension Benefits, continued:

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.

Actuarial Assumptions and Other Inputs

The total pension liability was determined by an actuarial valuation as of October 1, 2021 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:	2.17%

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

Notes to Financial Statements
September 30, 2024 and 2023

(8) Pension Plan, Continued

Actuarial Assumptions and Other Inputs, continued

Year fiduciary net position is projected to be depleted:	2027																		
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.																		
Disability:	<table> <tr> <th><u>Age</u></th><th><u>Disability</u></th></tr> <tr> <td>25</td><td>0.21%</td></tr> <tr> <td>30</td><td>0.18%</td></tr> <tr> <td>35</td><td>0.25%</td></tr> <tr> <td>40</td><td>0.35%</td></tr> <tr> <td>45</td><td>0.50%</td></tr> <tr> <td>50</td><td>0.76%</td></tr> <tr> <td>55</td><td>1.43%</td></tr> <tr> <td>60</td><td>2.12%</td></tr> </table>	<u>Age</u>	<u>Disability</u>	25	0.21%	30	0.18%	35	0.25%	40	0.35%	45	0.50%	50	0.76%	55	1.43%	60	2.12%
<u>Age</u>	<u>Disability</u>																		
25	0.21%																		
30	0.18%																		
35	0.25%																		
40	0.35%																		
45	0.50%																		
50	0.76%																		
55	1.43%																		
60	2.12%																		
Retirement Age:	100% at age 60																		
Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor																		
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.																		
Duty vs Non-Duty Related Disability:	100% Duty related																		

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

Notes to Financial Statements
September 30, 2024 and 2023

(8) Pension Plan, Continued

Actuarial Assumptions and Other Inputs, continued

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 5.95% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of July 2024, the twenty-year arithmetic real rates of return for each major investment class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
US Equities	46%	8.46%
Non-U.S. Equities (Mature Markets)	10%	8.20%
Fixed Income (U.S. Core)	40%	3.72%
Alternative (Real Estate Investment Trusts)	4%	8.72%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 2.23% at the current measurement date and 2.28% 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 2027. For years on or after 2027, the Municipal Bond Index Rate a discount rate of 2.22% was used. The Municipal Bond Index Rate from the prior measurement date was 2.28%.

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

Notes to Financial Statements
September 30, 2024 and 2023

(8) Pension Plan, Continued

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, 2021, calculated using the discount rate of 2.23%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (1.23%) or 1% higher (3.23%) from the current rate.

	1% Decrease 1.23%	Current Discount Rate Assumption 2.23%	1% Increase 1.23%
Net Pension Liability	\$201,333	\$172,140	\$148,420

Deferred Outflows and Inflows of Resources

At September 30, 2024 and 2023, BSCC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2024		2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,232	\$ 27,948	\$ 6,473	\$ 5,088
Net difference between projected and actual earnings on pension plan investments	242	1,102	359	246
Change in assumptions	32,958	8,567	41,270	12,089
Changes in proportion and difference between the BSCC contributions and proportionate share of contributions	107,616	-	128,101	-
Total	<u>\$ 145,048</u>	<u>\$ 37,617</u>	<u>\$ 176,203</u>	<u>\$ 17,423</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year.

BSCC's contributions to the Fund totaled \$24,935 and \$15,683, respectively, as of September 30, 2024 and 2023.

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

Notes to Financial Statements
September 30, 2024 and 2023

(9) Leasing Arrangements

The Company entered into three separate leases for the use of land, with various third parties, for the purpose of operational activities. The leases have terms ranging from 50 to 99 years, and does not include options to renew. The lease agreements include scheduled variable payment increases every 10 years, where the annual lease payments increased by 5%. These increases are included in the present value calculation of the lease liabilities.

The following summarizes the line items in the financial statements which include amounts for operating leases for the year ended September 30, 2024:

Right-of-use assets	<u>\$ 781,965</u>
Operating lease expense:	
Amortization of right-of-use assets	\$ 12,600
Discount on operating lease liabilities	<u>5,682</u>
	<u>\$ 18,282</u>
Lease liabilities:	
Current	\$ 11,704
Non-current	<u>790,549</u>
	<u>\$ 802,253</u>

Cash paid for amounts included in the measurement of lease liabilities totaled \$6,200.

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

Notes to Financial Statements
September 30, 2024 and 2023

(9) Leasing Arrangements, Continued

The following is a schedule of future minimum lease payments, that are due for each of the next five years and thereafter, as follows:

Year ending September 30,	Principal	Interest	Total
2025	\$ 11,704	\$ 5,658	\$ 17,362
2026	11,729	5,633	17,362
2027	11,753	5,609	17,362
2028	11,779	5,583	17,362
2029	11,822	5,559	17,381
2030 - 2034	60,266	27,385	87,651
2035 - 2039	61,553	26,616	88,169
2040 - 2044	63,256	25,776	89,032
2045 - 2049	64,775	24,802	89,577
2050 - 2054	66,745	23,739	90,484
2055 - 2059	68,544	22,514	91,058
2060 - 2064	70,833	21,176	92,009
2065 - 2069	72,495	19,652	92,147
2070 - 2074	13,003	18,296	31,299
2075 - 2079	14,840	17,067	31,907
2080 - 2084	17,174	15,690	32,864
2085 - 2089	19,424	14,078	33,502
2090 - 2094	22,226	12,282	34,508
2095 - 2099	24,971	10,207	35,178
2100 - 2104	28,330	7,903	36,233
2105 - 2109	31,667	5,269	36,936
2110 - 2114	35,692	2,353	38,045
2115	<u>7,672</u>	<u>84</u>	<u>7,756</u>
Total maturities of lease payments	<u>\$ 802,253</u>	<u>\$ 322,931</u>	<u>\$ 1,125,184</u>
Less: discounted rate			<u>(322,931)</u>
Present value of lease liabilities			<u>\$ 802,253</u>

The Company uses its average incremental borrowing rate of 1.75%, based on the information available at the implementation date, in determining the present value of lease payments.

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

Notes to Financial Statements
September 30, 2024 and 2023

(10) 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:

Year ending September 30,

2025	\$ 2,667,500
	<u>\$ 2,667,500</u>

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,

2025	\$ 71,000
2026	<u>71,000</u>
	<u>\$ 142,000</u>

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

Notes to Financial Statements
September 30, 2024 and 2023

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

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 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.

(11) 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.

(12) 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, 2024 and 2023.

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

Notes to Financial Statements
September 30, 2024 and 2023

(13) 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 \$2.6 million or 82% of revenues for the year ended September 30, 2024. The Company expects to maintain this relationship with the customer.

(14) Reclassifications

Certain reclassifications have been made to the 2023 combined financial statements for comparative purposes. Such reclassifications had no effect on previously reported retained earnings and net income.

(15) Subsequent Events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through February 28, 2025, 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*

	<u>2021</u>	<u>2020</u>
Civil Service Pension Trust Fund (Plan) total net pension liability	\$ 304,866,042	\$ 344,384,167
BSCC proportionate share of the net pension liability	\$ 172,140	\$ 192,325
BSCC proportionate share of the net pension liability	0.056%	0.056%
BSCC's covered-employee payroll**	\$ 26,800	\$ 34,250
BSCC's proportionate share of the net pension liability as a percentage of its covered employee payroll	642.31%	561.53%
Plan Fiduciary net position as a percentage of the total pension liability	10.47%	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*

	<u>2021</u>	<u>2020</u>
Actuarially determined contribution	\$ 8,791	\$ 8,791
Contribution in relation to the actuarially determined contribution	<u>2,043</u>	<u>2,055</u>
Contribution (excess) deficiency	<u>\$ 6,748</u>	<u>\$ 6,736</u>
BSCC's covered-employee payroll**	<u>\$ 34,591</u>	<u>\$ 38,250</u>
BSCC's proportionate share of the net pension liability	5.91%	5.37%

* 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, 2024 and 2024



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, 2024, 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 February 28, 2025.

Report on Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Koror, Republic of Palau
February 28, 2025