

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

Years Ended September 30, 2021 and 2020

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

Financial Statements

Years Ended September 30, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Belau Submarine Cable Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of net position of Belau Submarine Cable Corporation (BSCC), a component unit of the Republic of Palau (ROP), as of September 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise BSCC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BSCC as of September 30, 2021 and 2020, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 3 through 8 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. 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 25, 2022 on our consideration of the BSCC's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing on internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 25, 2022

BELAU SUBMARINE CABLE CORPORATION

(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis

September 30, 2021

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, 2021. We encourage readers to consider the information presented here in conjunction with the financial statements and related notes which follow this section. 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, 2021. We encourage readers to consider the information presented in conjunction with the Corporation's financial statements, and accompanying notes to the financial statements.

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

In FY 2020 and 2021 BSCC extended its access point at CAP-N to a temporary access point at the KB Shell corner in Airai (CAP-KBS), using micro-duct / micro-trench optical fiber technology along the Compact Road, to eliminate capacity bottlenecks. This extension was also funded by ADB, as will be the full extension to be completed in 2022, with a new permanent access point at the BSCC Technical Center at the airport site, now under contract (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.

In FY 2021, BSCC embarked on a project to build a second submarine fiber connection, this time from the Echo cable system currently under construction to a landing point at Ngardmau in Palau. This project is funded by a combination of debt, grants and equity, and will ensure resilient international connectivity.

Using This Annual Report

BSCC's financial statements are designed to emulate corporate presentation models whereby all Corporation activities are consolidated into one total. The focus of the Statements of Net Position is designed to be similar to bottom line results for the Corporation. This Statement combines and consolidates current financial resources (short-term spendable resources) with capital assets. The Statements of Revenues, Expenses, and Changes in Net Position focus on BSCC's start-up activities, which are supported by operating revenues after Ready for Service was declared on December 7, 2017. This approach is intended to summarize and simplify the user's analysis of 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, 2021

BSCC Structure

BSCC was established in 2015 by RPPL9-47 (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) 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 fourth year of operations during the fiscal year ended September 30, 2021. BSCC was established as a state-owned corporation to procure, own and manage submarine fiber optic cable connectivity for the Republic of Palau.

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, 2021 and 2020. 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, 2021 and 2020. 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, 2021 and 2020. It shows the cash activities by type and reconciles the beginning cash amount to the ending cash amount, which is shown on the *Statements of Net Position*, described above. In addition, this Statement reconciles cash flows from operating activities to operating profit on the *Statements of Revenues, Expenses, and Changes in Net Position*.

BELAU SUBMARINE CABLE CORPORATION
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Management's Discussion and Analysis
September 30, 2021

Overview of Financial Statements, continued

Notes to the Financial Statements

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

Current Status of Project

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

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

In FY 2018 the scope of the project was expanded so BSCC can fulfil its charter to provide equal access to its customers, since the CLS site, while the best available in Republic of Palau for a submarine cable landing, is somewhat remote from the main population centers. A proposal to extend the network with fiber along the roadside to an additional Customer Access Point (CAP) in Airai was approved by Asian Development Bank (ADB). This extension can be accommodated within the funding envelope. A design contract for the outside plant route has been completed by Globe Telecom of Philippines and a contract awarded to G&C Underground Services to construct the fiber link. This west-side fiber was completed and in service at the end of FY 2019/20, and at the time of writing both the east-side fiber and the Technical Center are under contract and are expected to be completed in H1 2022.

The original scope of the 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, achieving 100% availability most months, including the full 2021 financial year.

BELAU SUBMARINE CABLE CORPORATION
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Management's Discussion and Analysis
September 30, 2021

Current Status of Project, continued

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

The network has been 99.98% available since the start of the confidence trial on September 11, 2017.

Sales have exceeded expectations and are currently as of January 2022 at 10 Gbits/sec.

While the COVID crisis has impacted Palau seriously because the tourism industry, fundamental to the economy, has been stopped since March 2020, and growth has stalled on capacity, BSCC cash receipts have held up with payment plans in place with the largest two customers. BSCC forecasts further revenue loss in FY 2022, with recovery in 2023.

Financial Statements for the Year Ended September 30, 2021 and 2020

Statements of Net Position

Assets:	2021	2020
Current assets	\$ 6,224,230	\$ 5,524,638
Capital assets, net	18,536,681	17,990,267
Other assets	<u>88,929</u>	<u>58,402</u>
Total assets	<u>\$ 24,849,840</u>	<u>\$ 23,573,307</u>
Liabilities and Net Position:		
Current liabilities	\$ 1,820,507	\$ 1,544,492
Long-term debt	20,824,571	20,244,149
Net position	<u>2,204,762</u>	<u>1,784,666</u>
Total liabilities and net position	<u>\$ 24,849,840</u>	<u>\$ 23,573,307</u>

BELAU SUBMARINE CABLE CORPORATION
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Management's Discussion and Analysis
September 30, 2021

Financial Statements for the Year Ended September 30, 2021 and 2020, continued

Statements of Revenues and Expenses and Changes in Net Position

	2021	2020
Operating revenues	\$ 3,086,840	\$ 2,996,800
Operating expenses	2,408,326	1,992,843
Operating income	678,514	1,003,957
Nonoperating revenues (expenses), net	(258,418)	(457,967)
Change in net position	420,096	545,990
Net position, beginning of year	1,784,666	1,238,676
Net position, end of year	\$ 2,204,762	\$ 1,784,666

Statements of Cash Flows

	2021	2020
Net cash flows provided by operating activities	\$ 2,426,010	\$ 1,440,870
Net cash flows provided by (used in) capital and related financing activities	(1,480,896)	342,848
Net Cash flows from investing activities	78	93
Net change in cash	945,192	1,783,811
Cash, beginning of year	4,348,638	2,564,827
Cash, end of year	\$ 5,293,830	\$ 4,348,638
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 678,514	\$ 1,003,957
Net adjustments to reconcile operating income to net cash provided by operating activities:	1,747,496	436,913
	\$ 2,426,010	\$ 1,440,870

The main movement in Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position items between FY 2021 and FY 2020 reflects reasonable growth considering the impact of COVID-19 on cash receipts.

BSCC was funded by an injection of \$276,400 in cash and \$28,600 in kind by Republic of Palau on August 25, 2016. Additional financing was through back to back loans from Asian Development Bank (ADB) via Republic of Palau totaling US\$25,000,000 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

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

BELAU SUBMARINE CABLE CORPORATION

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Management's Discussion and Analysis

September 30, 2021

Economic Factors and Business Plan that will affect the Future

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

BSCC developed a Business Plan for fiscal years 2022 – 2026 which is briefly discussed below.

The Plan includes the PC2 project, which commenced in 2021 and is expected to be completed by Q3 2023. The total PC2 project will cost \$29.8M and connects the ECHO Cable to a new landing station to be built at Ngardmau. The plan also includes completing the network extension to Airai in 2022, and the further refinement of operational processes and strengthening of operational capability. The Plan is available for download on the BSCC web site.

PC2 Project Funding

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

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

The balance of the \$29.5M PC2 project is funded through grant and equity from:

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

Requests for Information

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

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

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

Statements of Net Position
September 30, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current assets:		
Cash	\$ 5,293,830	\$ 4,348,638
Accounts receivable	<u>930,400</u>	<u>1,176,000</u>
Total current assets	<u>6,224,230</u>	<u>5,524,638</u>
Capital assets:		
Depreciable capital asset, net	12,914,571	12,101,494
Indefeasible right of use, net	5,622,110	5,888,773
Other assets	<u>88,929</u>	<u>58,402</u>
Total capital assets, net	<u>18,625,610</u>	<u>18,048,669</u>
Total assets	<u>\$ 24,849,840</u>	<u>\$ 23,573,307</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Accrued expenses	\$ 174,217	\$ 133,492
Deferred income	<u>1,646,290</u>	<u>1,411,000</u>
Total current liabilities	<u>1,820,507</u>	<u>1,544,492</u>
Non-current liabilities:		
Long-term debt	<u>20,824,571</u>	<u>20,244,149</u>
Total liabilities	<u>22,645,078</u>	<u>21,788,641</u>
Net position:		
Net investments in capital assets	(2,287,890)	(2,253,882)
Unrestricted	<u>4,492,652</u>	<u>4,038,548</u>
Total net position	<u>2,204,762</u>	<u>1,784,666</u>
Total liabilities and net position	<u>\$ 24,849,840</u>	<u>\$ 23,573,307</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, 2021 and 2020

	2021	2020
Revenue	\$ 3,086,840	\$ 2,996,800
Operating expenses:		
Depreciation and amortization	1,491,698	1,136,499
Salaries and wages	333,105	321,584
Customer service center support	118,500	123,500
Taxes	105,547	-
Professional fees	84,840	94,039
Marine maintenance	51,969	54,300
Capacity purchase	49,500	47,600
Network operating center	45,951	31,000
Communications	30,562	29,837
Rent	20,095	17,898
Utilities	16,315	19,778
Insurance	14,512	20,467
Office supplies	5,393	4,647
Bank service charges	4,369	2,496
Meals and entertainment	1,107	4,888
Travel	-	20,945
Director fees	-	8,500
Miscellaneous	34,863	54,865
Total operating expenses	2,408,326	1,992,843
Operating income	678,514	1,003,957
Nonoperating revenues (expense):		
Interest expense	(258,496)	(458,060)
Interest income	78	93
Total nonoperating revenues (expense), net	(258,418)	(457,967)
Change in net position	420,096	545,990
Net position, beginning of year	1,784,666	1,238,676
Net position, end of year	\$ 2,204,762	\$ 1,784,666

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from customers for services	\$ 3,301,913	\$ 2,307,963
Cash paid to suppliers for goods and services	<u>(875,903)</u>	<u>(867,093)</u>
Net cash provided by operating activities	<u>2,426,010</u>	<u>1,440,870</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,038,112)	(1,483,699)
Interest paid on long-term debt	(258,496)	(458,060)
Proceeds from long-term debt	580,422	873,607
Grant proceeds	<u>235,290</u>	<u>1,411,000</u>
Net cash (used in) provided by capital and related financing activities	<u>(1,480,896)</u>	<u>342,848</u>
Cash flows from investing activities:		
Interest received on cash in bank	<u>78</u>	<u>93</u>
Net change in cash	945,192	1,783,811
Cash, beginning of year	<u>4,348,638</u>	<u>2,564,827</u>
Cash, end of year	<u>\$ 5,293,830</u>	<u>\$ 4,348,638</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 678,514	\$ 1,003,957
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,491,698	1,136,499
Decrease (Increase) in accounts receivable	245,600	(671,600)
Increase in other assets	(30,527)	(17,238)
Increase (decrease) in accrued expenses	<u>40,725</u>	<u>(10,748)</u>
	<u>\$ 2,426,010</u>	<u>\$ 1,440,870</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, 2021 and 2020

(1) Organization and Summary of Significant Accounting Policies

Organization

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

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

Basis of Accounting

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

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

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

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
September 30, 2021 and 2020

(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, 2021 and 2020.

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 Assets 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, 2021 and 2020.

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, 2021 and 2020.

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
September 30, 2021 and 2020

(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 \$1,225,035 and \$869,838 for the years ended September 30, 2021 and 2020, respectively.

Capital Asset Under Construction

BSCC has been progressing the development of a second submarine cable connection (the PC2 project) over the past year and has spent \$813,752 on progressing the project to financing stage as of September 30, 2021. These funds were spent on external financial, technical and legal consultant support and for the down-payment on a Marine Survey that was conducted by NEC Corporation.

Indefeasible Right of Use

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

Impairment of Capital Assets

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

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value. At September 30, 2021 and 2020, 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.

BELAU SUBMARINE CABLE CORPORATION
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Notes to Financial Statements
September 30, 2021 and 2020

(1) 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 2021, BSCC commenced participating and contributing 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 not 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.

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*.

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

Notes to Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

Income Taxes

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

Upcoming Accounting Pronouncements

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

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statements No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these Statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Management believes that this Statement, upon implementation, may have a material effect on the financial statements. The provisions of Statement No. 87 will be effective for BSCC for the fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management believes that this Statement, upon implementation, may have a material effect on the financial statements. GASB Statement No. 89 will be effective for BSCC for the fiscal year ending September 30, 2022.

BELAU SUBMARINE CABLE CORPORATION
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(1) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements, 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. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB issued Statement No. 91 will be effective for the fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and implementation Guide No. 2019-13, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 95, the remaining requirements of GASB No. 92 are effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (IBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of effectiveness of derivative instruments is effective for the fiscal year ended September 30, 2022. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 is effective for fiscal year ending September 30, 2023.

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(1) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements, Continued

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 is effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 is effective for fiscal year ending September 30, 2023.

(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.

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

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 the 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 the 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, 2021 and 2020, the carrying amount of BSCC's total cash in bank was \$5,293,830 and \$4,348,638 with a corresponding bank balance of \$5,336,618 and \$4,363,426, respectively. From these deposits, \$250,000 at September 30, 2021 and 2020 was subject to coverage by FDIC. BSCC does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized and are subject to custodial credit risk.

Investments

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

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

- 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 the 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, 2021, and 2019, BSCC did not have investments subject to GASB Statement No. 40.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2021 and 2020 are as follows:

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

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Notes to Financial Statements
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(3) Capital Assets, Continued

	Estimated Useful Lives	Balance 9/30/2019	Additions	Transfers In (Out)	Balance 09/30/2020
Buildings and Improvements	5 - 25 yrs	\$ 680,982	\$ 14,607	\$ -	\$ 695,589
Plant and Equipment	5 - 10 yrs	768,708	884,560	-	1,653,268
Submarine Terminal Equipment	20 - 25 yrs	3,336,009	-	-	3,336,009
Submarine Cable	20 - 25 yrs	7,376,028	-	-	7,376,028
Support Equipment	3 - 5 yrs	552,523	-	-	552,523
Vehicles	3 - 5 yrs	15,148	-	-	15,148
		12,729,398	899,167	-	13,628,565
Accumulated depreciation		(1,300,196)	(892,001)	-	(2,192,197)
		11,429,202	7,166	-	11,436,368
Capital asset under construction		58,431	606,695	-	665,126
Net capital assets		<u>\$ 11,487,633</u>	<u>\$ 613,861</u>	<u>\$ -</u>	<u>\$ 12,101,494</u>

(4) Indefeasible Right of Use (IRU) Agreement

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

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

Total purchase price is \$6.7 million and was fully paid as of September 30, 2018. The amortization of the IRU commenced in November 2017, which was the IRU RFS date. The Corporation recognized amortization expense in the amount of \$266,663 and \$266,661 for the years ended September 30, 2021 and 2020, respectively.

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(5) Deferred Revenues

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

On June 3, 2020 BSCC entered into a grant agreement with the Commonwealth of Australia represented by the Department of Foreign Affairs and Trade under the Australian Infrastructure Financing Facility for the Pacific to provide funding in the amount of \$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. The PSBU will enable the development of an ECHO branch submarine cable into Palau at a later date.

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 \$347,490 which was recognized as deferred revenues as September 30, 2021.

(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.

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(6) Long-Term Debt, Continued

Long-term debt at September 30, 2021 and 2020 is as follows:

	2021	2020
Loan payable under the Ordinary Operations Loan Agreement, guaranteed by the ROP government, with a 20-year term commencing on June 1, 2021, when the first principal repayment fell due, interest at LIBOR plus 0.50% per annum and payable every June 1 and December 1. Principal is to be repaid at 2.5% of the total principal amount outstanding on each payment date.	\$ 13,746,895	\$ 13,341,068
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.	<u>7,077,676</u>	<u>6,903,081</u>
	<u>\$ 20,824,571</u>	<u>\$ 20,244,149</u>

As of September 30, 2021, amounts available under the Ordinary and Special Operations Loan Agreements that may be drawn in subsequent years approximate \$2.7 million and \$1.5 million, respectively.

As of September 30, 2021, there was no current portion due on the long-term debt.

For the years ended December 31, 2021 and 2020, interest expense on the aforementioned long-term debt was \$258,496 and \$458,060, respectively.

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(6) Long-Term Debt, Continued

Long-term liabilities of BSCC consist solely of notes payable. The changes in long-term liabilities for the years ended September 30, 2021 and 2020 are as follows:

	Outstanding October 1, 2020	Increases	Decreases	Outstanding September 30, 2021	Current	Noncurrent
Notes Payable	\$ 20,244,149	\$ 580,422	-	\$ 20,824,571	\$ -	\$ 20,824,571
	<u>\$ 20,244,149</u>	<u>\$ 580,422</u>	<u>\$ -</u>	<u>\$ 20,824,571</u>	<u>\$ -</u>	<u>\$ 20,824,571</u>
	Outstanding October 1, 2019	Increases	Decreases	Outstanding September 30, 2020	Current	Noncurrent
Notes Payable	\$ 19,370,542	\$ 873,607	-	\$ 20,244,149	\$ -	\$ 20,244,149
	<u>\$ 19,370,542</u>	<u>\$ 873,607</u>	<u>\$ -</u>	<u>\$ 20,244,149</u>	<u>\$ -</u>	<u>\$ 20,244,149</u>

(7) Capacity Use, Lease and Other Commitments

Commencing December 2017, BSCC leases telecommunications capacity with various customers located in the Republic of Palau under a three-year capacity use agreement with total quarterly customer payments in the amount of \$889,200.

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

<u>Year ending September 30,</u>	
2022	\$ 3,556,800
2023	<u>3,556,800</u>
	<u>\$ 7,113,600</u>

Effective December 2017, BSCC leases commercial space under a five-year lease agreement at an annual rate of \$3,498, payable in advance.

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Notes to Financial Statements
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(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.

Future commitments resulting from the service agreements are as follows:

<u>Year ending September 30,</u>	
2022	\$ 180,500
2023	161,700
2024	155,500
2025	<u>48,400</u>
	<u>\$ 546,100</u>

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.

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. The connection, which will provide a medium to long-term solution for customer access, aims for greater network capacity to support anticipated future demand.

During 2021, BSCC entered into the following loan agreement commitments to assist with funding the PC2 project:

- a) \$8,846,414 with Export Finance Australia (the Export Credit Agency for the Commonwealth of Australia and the lending agency for the Australia Infrastructure Financing Facility for the Pacific). The loan commitment has a ten-year maturity with interest ranging from 1.336% to 1.75% per annum and must be drawn down by December 2023. As of September, 30, 2021, no loan proceeds have been drawn against this commitment.

- b) \$8,000,000 jointly with Japan Bank for International Cooperation and Sumitomo Banking Corporation. The loan commitment has a ten-year maturity with interest ranging from 1.63% and the available LIBOR (or equivalent) and must be drawn down by December 2023. As of September, 30, 2021, no loan proceeds have been drawn against this commitment.

The remainder of the PC2 project is funded by a combination of grant funding and equity.

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Notes to Financial Statements
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(8) Fair Value of Financial Instruments

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

(9) 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, 2021 and 2020.

(10) 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 \$2.2 million or 72% of revenues for the year ended September 30, 2021. The Company expects to maintain this relationship with the customer. Although the Company is directly affected by the financial condition of its customers, management does not believe significant credit risks exist at September 30, 2021.

(11) Subsequent Events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through February 25, 2022, 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
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INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

Years Ended September 30, 2021 and 2020



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Belau Submarine Cable Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Belau Submarine Cable Corporation (the Corporation), which comprise the statement of net position as of September 30, 2021 and 2020, 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 25, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Belau Submarine Cable Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Belau Submarine Cable Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 organization'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 25, 2022