

**PALAU COMMUNITY ACTION AGENCY
(A NONPROFIT CORPORATION)**

**FINANCIAL STATEMENTS, ADDITIONAL
INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2014



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Community Action Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of Palau Community Action Agency (the Agency) (a nonprofit corporation), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements.

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 audit. We conducted our audit 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palau Community Action Agency as of September 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

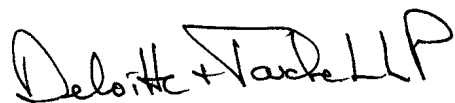
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Statement of Activities on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, on our consideration of Palau Community Action Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Palau Community Action Agency's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 26, 2015

**PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)**

Statement of Financial Position
September 30, 2014

ASSETS

Current assets:	
Cash	\$ 45,760
Receivables:	
Grantor agencies	220,149
General	24,629
Allowance for doubtful accounts	(2,763)
Prepaid expenses	<u>3,909</u>
Total current assets	291,684
Property and equipment, net of depreciation and impairment valuation loss	<u>801,062</u>
	<u>\$ 1,092,746</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable - trade	\$ 85,122
Accounts payable - employees	917
Accrued expenses	163,814
Deferred revenue	<u>19,646</u>
Total current liabilities	<u>269,499</u>
Contingencies	
Net assets:	
Unrestricted	983
Temporarily restricted	<u>822,264</u>
Total net assets	<u>823,247</u>
	<u>\$ 1,092,746</u>

See accompanying notes to financial statements.

**PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)**

Statement of Activities
Year Ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 342,000	\$ 1,831,350	\$ 2,173,350
Other	1,050	356,356	357,406
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>2,179,615</u>	<u>(2,179,615)</u>	<u>-</u>
Total revenues and other support	<u>2,522,665</u>	<u>8,091</u>	<u>2,530,756</u>
Expenses and losses:			
Program services:			
Headstart	1,776,515	-	1,776,515
Historical Preservation Trust	140,772	-	140,772
Embassy of Japan	8,000	-	8,000
YADA	112,695	-	112,695
Belau Child Care Fund program	1,484	-	1,484
Pacific Adaptation to Climate Change program	286	-	286
T8AA/British Broadcasting Corporation program	690	-	690
Local programs	10,912	-	10,912
Supporting services:			
Republic of Palau	346,688	-	346,688
Depreciation	-	70,813	70,813
Impairment valuation loss	<u>-</u>	<u>43,104</u>	<u>43,104</u>
Total expenses and losses	<u>2,398,042</u>	<u>113,917</u>	<u>2,511,959</u>
Other changes in net assets:			
Acquisition of property and equipment	<u>(131,011)</u>	<u>131,011</u>	<u>-</u>
Change in net assets	(6,388)	25,185	18,797
Net assets at beginning of year	<u>7,371</u>	<u>797,079</u>	<u>804,450</u>
Net assets at end of year	<u>\$ 983</u>	<u>\$ 822,264</u>	<u>\$ 823,247</u>

See accompanying notes to financial statements.

**PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)**

Statement of Functional Expenses
Year Ended September 30, 2014

Personnel	\$ 910,172
Project and other costs	516,681
Rent	246,946
Fringe benefits	200,992
Contractual services	195,264
Supplies	170,875
Depreciation	70,813
Travel and per diem	55,328
Impairment valuation loss	43,104
Petroleum, oil and lubricants	42,003
Repairs and maintenance	21,871
Insurance	16,321
Communications	14,570
Facilities/construction	<u>7,019</u>
	<u>\$ 2,511,959</u>

See accompanying notes to financial statements.

**PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)**

Statement of Cash Flows
Year Ended September 30, 2014

Cash flows from operating activities:	
Change in net assets	\$ 18,797
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	70,813
Impairment valuation loss	43,104
(Increase) decrease in assets:	
Receivables - grantor agencies	(64,281)
Receivables - general	(5,220)
Prepaid expenses	385
Increase (decrease) in liabilities:	
Accounts payable - trade	20,974
Accounts payable - employees	247
Accrued expenses	38,581
Deferred revenue	19,646
Net cash provided by operating activities	<u>143,046</u>
Cash flows from investing activities:	
Acquisition of property and equipment	<u>(131,011)</u>
Net cash used in investing activities	<u>(131,011)</u>
Net decrease in cash	12,035
Cash at beginning of year	<u>33,725</u>
Cash at end of year	<u><u>\$ 45,760</u></u>
Supplemental schedule of noncash activities:	
Noncash increase in operating expenses	\$ 497,376
Noncash increase in contributions	<u>(497,376)</u>
Net effect	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

**PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)**

Notes to Financial Statements
September 30, 2014

(1) Organization

Palau Community Action Agency (the Agency) was incorporated in 1967, under the laws of the Trust Territory of the Pacific Islands, as a nonprofit corporation. The primary purpose of the Agency is to administer community action programs and other related anti-poverty programs, as well as other programs for which it has been appointed.

(2) Summary of Significant Accounting Policies

The financial statements of the Agency have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Accounting Standards

The Agency adheres to the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. FASB ASC 958 establishes standards for accounting for contributions and broad standards for reporting information in financial statements issued by not-for-profit organizations and require these financial statements to focus on the entity as a whole. Amounts related to an organization's financial position and activities are to be reported in three classes of net assets; permanently restricted, temporarily restricted and unrestricted.

FASB ASC 958 classifies an organization's assets, liabilities, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. The three classes of net assets are classified as one of the following types:

- Unrestricted
- Temporarily restricted
- Permanently restricted

The Agency has determined that all assets, liabilities, revenues, expenses, gains and losses from Republic of Palau (ROP) appropriations are unrestricted. The Agency has determined that all assets, liabilities, revenues, expenses, gains and losses resulting from federal grants and contributions are temporarily restricted.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)**

Notes to Financial Statements
September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

Net Assets

The Agency reports grants or gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Temporarily restricted net assets of \$822,264 are available as of September 30, 2014.

Net assets of \$2,179,615 were released from restrictions due to satisfaction of donor imposed restrictions for the year ended September 30, 2014.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support.

During the year ended September 30, 2014, the Agency received \$497,376 of in-kind contributions. These contributions are reflected as contributions and operating expenses in the accompanying financial statements.

Included in in-kind contributions is the free use of State facilities and lots.

One lot is used by the Agency for its Head Start Program, free of charge. A lease agreement has not been executed as title is in dispute. Management is of the opinion that its program will not be disrupted as a result of this matter. Further, management believes the Agency will not realize losses resulting from resolution of this matter.

Cash

For purposes of the statement of financial position and of cash flows, the Agency considers cash to be cash on hand and cash in checking and savings accounts. At September 30, 2014, total cash was \$45,760 and the corresponding bank balances were \$67,418. All of the bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance and were FDIC insured at September 30, 2014.

Allowance for Doubtful Accounts

The Agency grants credit on an unsecured basis, to employees for advances and travel substantially all of whom are in the Republic of Palau. The allowance for doubtful accounts is established through a provision charged to expense. Accounts are charged against the allowance when management believes that the collection of the balance is unlikely based on the specific identification method. The allowance is an amount that management believes will be adequate to absorb possible losses on existing balances that may be uncollectible, based on evaluations of collectability and prior loss experience. Bad debts are written-off against the allowance based on the specific identification method.

**PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)**

Notes to Financial Statements
September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment and Depreciation

Property and equipment are stated at cost less accumulated depreciation and impairment valuation loss. The Agency capitalizes capital assets with a unit cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets with unit cost of less than \$5,000 are inventoried but are not capitalized in the financial statements. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

Long-Lived Assets

Long-lived assets are reviewed by the Agency for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. During the year ended September 30, 2014, the Agency determined that a change in circumstances indicated that the impairment of its long-lived assets had occurred in the amount of \$43,104, which is included in impairment valuation loss in the accompanying financial statements.

Accrued Annual Leave

The Agency recognizes costs for accrued annual leave at the time such leave is earned. Unpaid accrued annual leave of \$49,530 is recorded within accrued expenses in the accompanying statement of financial position.

Taxes

The Agency is exempt from gross revenue and other taxes assessed by the Republic of Palau. Therefore, no provision has been made for taxes in the accompanying financial statements. For income tax purposes, a tax year generally remains open to assessment and collection for three years after the later of the due date for filing a tax return or the date on which the taxpayer files its return.

Republic of Palau Civil Service Pension Trust Fund

The Agency contributes 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.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic of Palau, Republic of Palau State Governments and Republic of Palau agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are the credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. Members, who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. RPPL 2-26 is the authority under which benefit provisions are established. On April 30, 2013, RPPL 9-2 was enacted which eliminates 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. Member contribution rates are established by RPPL 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer.

**PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)**

Notes to Financial Statements
September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued

Under the provisions of RPPL 2-26, the Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. The Agency's payroll for fiscal year 2014 except for part-time or temporary staff is covered by the Fund's plan.

The Fund utilizes the actuarial cost method termed "level aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 7.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users to evaluate the Fund's funding status on a going-concern basis, and evaluate progress made in accumulating adequate assets to pay benefits when due.

The Fund's October 1, 2013 actuarial valuation determined the unfunded pension benefit obligation as follows:

Participants in pay status	\$ 82,099,216
Active participants	61,865,857
Participants with vested deferred benefits	<u>3,323,468</u>
Total pension benefit obligation	147,288,541
Net assets available for benefits, at market value	<u>(34,261,206)</u>
Unfunded benefit obligation	\$ <u>113,027,335</u>

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net position available for benefits by sponsor. The amount of the unfunded liability that Agency may be liable for has not been determined and is not included as a liability in the accompanying statement of financial position.

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. Box 1767, Koror, Palau 96940.

The Agency's pension plan expense for the fiscal year 2014 totaled \$56,028 and is recorded in the following expense categories in the accompanying statement of activities:

Headstart	\$ 48,428
Historical Preservation Trust	3,180
Republic of Palau	<u>4,420</u>
	\$ <u>56,028</u>

**PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)**

Notes to Financial Statements
September 30, 2014

(3) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on the functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(4) Property and Equipment

Summarized below is the Agency's investment in property and equipment for the year ended September 30, 2014:

	<u>Estimated Useful Lives</u>	
Vehicles	3 - 6 years	\$ 652,793
Buildings	30 years	661,185
Leasehold improvements	30 years	402,154
Other fixed assets	3 - 8 years	32,868
Office furniture and equipment	3 - 15 years	82,465
Marine equipment	3 - 7 years	43,849
Construction in progress		<u>74,100</u>
		1,949,414
Less accumulated depreciation		1,050,280
Less impairment valuation loss		<u>98,072</u>
		\$ <u>801,062</u>

During the year ended September 30, 2014, the Agency recorded an impairment valuation loss of \$43,104 for applicable leasehold improvements that will no longer be utilized.

(5) Republic of Palau Appropriation

During the year ended September 30, 2014, the Republic of Palau appropriated \$289,000 for operations of the Agency through RPPL 9-15, of which \$167,000 was transferred to the Headstart Program as the Agency's local match.

(6) Contingencies

Sick Leave

It is the policy of the Agency to record an expense for sick leave when leave is actually taken. Sick leave is compensated time for absence during work hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave is \$132,772 at September 30, 2014.

Federal Grants

Pursuant to the Compact of Free Association entered into between the Republic of Palau National Government and United States Government, substantially all U.S. federal grant activity provided by grantors other than the U.S. Department of the Interior (DOI) phases out over the term of the Compact.

**PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)**

Notes to Financial Statements
September 30, 2014

(6) Contingencies, Continued

Federal Grants, Continued

Substantially all of the Agency's funding is provided by grants from the U.S. Government. Therefore, the future of the entity is contingent upon the Agency's ability to obtain grant funding.

(7) Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Agency has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims have not exceeded this commercial coverage in any of the past three years.

(8) Subsequent Events

The Agency has identified June 26, 2015 as the date the financial statements were available to be issued and the date through which subsequent events have been evaluated. The Agency has not identified any subsequent events that required adjustment to or disclosure in the financial statements as of September 30, 2014.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Combining Statement of Activities
Year Ended September 30, 2014

	Unrestricted Fund				Temporarily Restricted Funds										Total Restricted Funds	Total All Funds	
	ROP Appropriations	Headstart Program	Indirect Costs	Eliminations (See Note)	Total Headstart Program	HPF Program	Embassy of Japan	YADA	BCCF Program	PACC Program	T8AA/BBC	Local Program	Subtotal	Property and Equipment			
Revenues and other support:																	
Contributions	\$ 342,000	\$ 1,498,923	\$ -	\$ -	\$ 1,498,923	\$ 137,732	\$ 82,000	\$ 112,695	\$ -	\$ -	\$ -	\$ -	\$ 1,831,350	\$ -	\$ 1,831,350	\$ 2,173,350	
Other	1,050	498,603	155,442	(322,442)	331,603	-	100	-	10,594	-	-	14,059	356,356	-	356,356	357,406	
Total revenues and other support	343,050	1,997,526	155,442	(322,442)	1,830,526	137,732	82,100	112,695	10,594	-	-	14,059	2,187,706	-	2,187,706	2,530,756	
Expenses and losses:																	
Personnel	91,806	790,500	59,286	(102,341)	747,445	70,921	-	-	-	-	-	-	818,366	-	818,366	910,172	
Project and other costs	227,591	319,261	14,860	(66,266)	267,855	11,235	-	10,000	-	-	-	-	289,090	-	289,090	516,681	
Rent	-	246,946	-	-	246,946	-	-	-	-	-	-	-	246,946	-	246,946	246,946	
Fringe benefits	14,812	174,125	12,545	(19,901)	166,769	19,411	-	-	-	-	-	-	186,180	-	186,180	200,992	
Contractual services	-	86,132	32,857	(32,857)	86,132	25,240	8,000	75,712	-	180	-	-	195,264	-	195,264	195,264	
Supplies	1,267	141,611	19,760	(20,660)	140,711	4,314	-	12,355	856	-	460	10,912	169,608	-	169,608	170,875	
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	70,813	70,813	70,813	
Travel and per diem	-	33,551	-	-	33,551	7,149	-	14,628	-	-	-	-	55,328	-	55,328	55,328	
Impairment valuation loss	-	-	-	-	-	-	-	-	-	-	-	-	-	43,104	43,104	43,104	
Petroleum, oil and lubricants	3,618	55,402	999	(20,624)	35,777	2,502	-	-	-	106	-	-	38,385	-	38,385	42,003	
Repairs and maintenance	3,052	45,950	4,019	(31,380)	18,589	-	-	-	-	-	230	-	18,819	-	18,819	21,871	
Insurance	1,817	14,166	1,750	(1,750)	14,166	-	-	-	338	-	-	-	14,504	-	14,504	16,321	
Communications	2,725	11,555	8,366	(8,366)	11,555	-	-	-	290	-	-	-	11,845	-	11,845	14,570	
Facilities/construction	-	24,316	-	(17,297)	7,019	-	-	-	-	-	-	-	7,019	-	7,019	7,019	
	346,688	1,943,515	154,442	(321,442)	1,776,515	140,772	8,000	112,695	1,484	286	690	10,912	2,051,354	113,917	2,165,271	2,511,959	
Other changes in net assets:																	
Acquisition of property and equipment	(2,750)	(54,161)	(1,000)	1,000	(54,161)	-	(74,100)	-	-	-	-	-	(128,261)	131,011	2,750	-	
	(2,750)	(54,161)	(1,000)	1,000	(54,161)	-	(74,100)	-	-	-	-	-	(128,261)	131,011	2,750	-	
Changes in net assets	(6,388)	(150)	-	-	(150)	(3,040)	-	-	9,110	(286)	(690)	3,147	8,091	17,094	25,185	18,797	
Net assets at beginning of year	7,371	-	-	-	-	6,048	-	-	5,890	384	789	-	13,111	783,968	797,079	804,450	
Net assets at end of year	\$ 983	\$ (150)	\$ -	\$ -	\$ (150)	\$ 3,008	\$ -	\$ -	\$ 15,000	\$ 98	\$ 99	\$ 3,147	\$ 21,202	\$ 801,062	822,264	823,247	

Note: Eliminations represent the following:

(a) Indirect cost revenues of \$155,442 were transferred from the following programs:

1. Headstart	\$141,991
2. HPF	3,234
3. YADA	10,000
	<u>155,225</u>

(b) Other miscellaneous revenue

	217
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(c) Headstart ROP Appropriation

	<u>167,000</u>
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Total eliminations

	<u><u>322,442</u></u>
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See accompanying Independent Auditors' Report.