

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

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

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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 statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years 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 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.

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, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

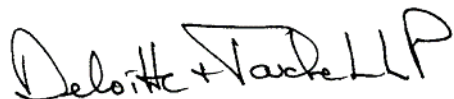
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Proportional Share of the Net Pension Liability on page 22 and the Schedule of Pension Contributions on page 23 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 the Agency'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 December 30, 2021, 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 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 the Agency'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 Palau Community Action Agency's internal control over financial reporting and compliance.



December 30, 2021

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

Statements of Net Position
September 30, 2020 and 2019

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash	\$ 420,624	\$ 410,159
Receivables:		
Grantor agencies	230,856	302,088
General	1,100	1,700
Allowance for doubtful accounts	(1,985)	(2,110)
Prepaid expenses	<u>6,303</u>	<u>3,330</u>
Total current assets	656,898	715,167
Property and equipment, net	<u>954,745</u>	<u>750,726</u>
Total assets	1,611,643	1,465,893
Deferred outflows of resources from pension	<u>2,554,878</u>	<u>1,861,962</u>
Total assets and deferred outflows of resources	<u>\$ 4,166,521</u>	<u>\$ 3,327,855</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable - trade	\$ 20,106	\$ 121,472
Accrued expenses	254,912	250,320
Deferred revenue	<u>134,839</u>	<u>54,922</u>
Total current liabilities	409,857	426,714
Net pension liability	<u>7,324,471</u>	<u>5,852,520</u>
Total liabilities	7,734,328	6,279,234
Deferred inflows of resources from pension	<u>1,201,909</u>	<u>1,198,096</u>
Total liabilities and deferred inflows of resources	<u>8,936,237</u>	<u>7,477,330</u>
Contingencies		
Net position:		
Net investment in capital assets	954,744	750,726
Restricted	236,986	280,415
Unrestricted	<u>(5,961,446)</u>	<u>(5,180,616)</u>
Total net position	<u>(4,769,716)</u>	<u>(4,149,475)</u>
	<u>\$ 4,166,521</u>	<u>\$ 3,327,855</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Change in Net Position
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Contributions	\$ 2,765,299	\$ 2,593,313
Other	<u>341,835</u>	<u>405,835</u>
Total operating revenues	<u>3,107,134</u>	<u>2,999,148</u>
Operating expenses		
Personnel	1,250,759	1,323,946
Pension costs	782,848	537,227
Project and other costs	489,781	447,982
Rent	334,699	278,128
Fringe benefits	267,191	277,637
Supplies	186,319	166,535
Facilities/construction	81,583	122,874
Contractual services	74,244	92,813
Depreciation	66,764	55,311
Travel and per diem	56,276	51,660
Petroleum, oil and lubricants	39,943	33,798
Repairs and maintenance	47,197	32,807
Communications	22,301	22,485
Insurance	14,107	13,075
Equipment	<u>13,363</u>	<u>-</u>
Total operating expenses	<u>3,727,375</u>	<u>3,456,278</u>
Change in net position	(620,241)	(457,130)
Net position at beginning of year	<u>(4,149,475)</u>	<u>(3,692,345)</u>
Net position at end of year	\$ <u><u>(4,769,716)</u></u>	\$ <u><u>(4,149,475)</u></u>

See accompanying notes to financial statements.

**PALAU COMMUNITY ACTION AGENCY
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Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Grant and contribution receipts	\$ 2,911,731	\$ 2,460,164
Other receipts	-	81,235
Cash paid to employees	(1,246,167)	(1,274,805)
Cash paid to suppliers	(1,384,316)	(1,194,441)
Net cash provided by operating activities	281,248	72,153
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(270,783)	(9,400)
Net cash used in capital and related financing activities	(270,783)	(9,400)
Net change in cash	10,465	62,753
Cash at beginning of year	410,159	347,406
Cash at end of year	\$ 420,624	\$ 410,159
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	\$ (620,241)	\$ (457,130)
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	66,764	55,311
Bad debts	(125)	(380)
Noncash pension costs	782,848	537,227
(Increase) decrease in assets:		
Receivables - grantor agencies	71,232	(83,699)
Receivables - general	600	1,242
Prepaid expenses	(2,973)	6
Increase (decrease) in liabilities:		
Accounts payable - trade	(101,366)	19,885
Due to grantor	79,917	(49,450)
Accrued expenses	4,592	49,141
Net cash provided by operating activities	\$ 281,248	\$ 72,153

Supplemental information of noncash operating activities:

During the years ended September 30, 2020 and 2019, in-kind contributions of \$347,152 and \$325,842, respectively, are recorded as other income and expense.

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2020 and 2019

(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 in the Republic of Palau, as well as other programs for which it has been appointed.

(2) Summary of Significant Accounting Policies

Basis of Accounting

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. The Agency has historically, for external reporting purposes, reported its external financial statements under not for profit accounting requirements promulgated by the Financial Accounting Standards Board. However, due to the Republic of Palau's implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 in 2015, the Agency has opted to externally report in accordance with GASB requirements.

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 deferred outflows, and liabilities and deferred inflows, 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.

Net Position

The Agency's net position is classified as follows:

Net Investment in Capital Assets - capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

Restricted Net Position – expendable consists of resources in which the Agency is legally or contractually obligated to spend resources in accordance with restriction either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.

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

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 restricted.

**PALAU COMMUNITY ACTION AGENCY
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

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 restricted support.

During the years ended September 30, 2020 and 2019, the Agency received \$347,152 and \$325,842, respectively, 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

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Agency does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and of cash flows, the Agency considers cash to be cash on hand and cash in checking and savings accounts. At September 30, 2020 and 2019, the total carrying value of cash was \$420,624 and \$410,159, respectively, and the corresponding bank balances were \$461,983 and \$432,977, respectively. 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, 2020 and 2019.

Receivables and Allowance for Doubtful Accounts

Receivables primarily consist of federal grants due from U.S. federal grantor agencies. 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.

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 as follows:

**PALAU COMMUNITY ACTION AGENCY
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment and Depreciation, Continued

	<u>Estimated Useful Lives</u>
Vehicles	3 - 6 years
Buildings	30 years
Leasehold improvements	30 years
Other fixed assets	3 - 8 years
Office furniture and equipment	3 - 15 years
Marine equipment	3 - 7 years

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 years ended September 30, 2020 and 2019, the Agency did not become aware of any events or changes in circumstances indicating that impairment of its long-lived assets occurred.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Agency has determined the changes in assumptions, changes in proportion and differences between the Agency's actual contributions and its proportionate share of contributions and contributions made subsequent to the measurement date associated with its defined benefit pension plan qualify for reporting in this category.

Accrued Annual Leave

The Agency recognizes costs for accrued annual leave at the time such leave is earned. Unpaid accrued annual leave of \$106,033 and \$93,907 as of September 30, 2020 and 2019, respectively, is recorded within accrued expenses in the accompanying statements of net position.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Agency has determined the changes in assumptions, differences between projected and actual earnings on pension plan investments and changes in proportion and differences between the Agency's actual contributions and its proportionate share of contributions associated with its defined benefit pension plan qualify for reporting in this category.

**PALAU COMMUNITY ACTION AGENCY
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

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.

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Agency recognizes a net pension liability for the defined benefit pension plan, which represents the Agency's proportional share of excess total pension liability over the pension plan assets - actuarially calculated - of a cost sharing multi-employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. 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 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. 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.

New Accounting Standards

The implementation of these statements did not have a material effect on the accompanying financial statements.

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos: 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, except for Statement No. 89 which was implemented October 1, 2018.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

**PALAU COMMUNITY ACTION AGENCY
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements Nos. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

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. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for 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. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

**PALAU COMMUNITY ACTION AGENCY
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

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 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be 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 (IRC) 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 will be effective for fiscal year ending September 30, 2022.

**PALAU COMMUNITY ACTION AGENCY
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan

A. General Information about the Pension Plan:

Plan Description: The Agency contributes to the Republic of Palau Civil Service Pension Trust Fund (the Plan), a defined benefit, cost sharing multi-employer plan, which is a component unit of the Republic of Palau (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 Plan was established pursuant to RPPL No. 2-26 passed into law on April 3, 1987, and began operations on 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.

A single actuarial valuation report is performed annually covering all plan members and the same contribution rate applies to each employer. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the Plan's Administrator at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call (680) 488-2523.

Plan Membership. As of October 1, 2019, the valuation date, plan membership consisted of the following:

Inactive members currently receiving benefits	1,629
Inactive members entitled to but not yet receiving benefits	1,252
Active members	<u>3,480</u>
Total members	<u>6,361</u>

Pension Benefits. Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty 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 twenty 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.

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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan, Continued

A. General Information about the Pension Plan, Continued:

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, the Board adopted a resolution 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 an actuarially equivalent lump sum contribution”. 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 two percent 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.

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

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan, Continued

A. General Information about the Pension Plan, Continued:

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:

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

Upon the 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 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 date of death and a spouse or beneficiary survives, the total death benefit 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 benefits.

Upon the death of a member or former member before commencement of his 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 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.

**PALAU COMMUNITY ACTION AGENCY
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan

A. General Information about the Pension Plan, Continued:

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally 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.

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 Plan through payroll deduction.

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 Plan in order to keep the Plan on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Plan equal to the amount contributed by each and every employee of ROP. Additionally, an excise tax of four percent (4%) is levied against each non-citizen person transferring money out of ROP. The money transfer tax must be remitted to the Plan.

The Agency's contributions to the pension plan for the fiscal years 2020 and 2019 totaled \$83,795 and \$84,599, respectively, and are recorded in the following program categories.

	<u>2020</u>	<u>2019</u>
Head Start	\$ 65,090	\$ 66,764
Historical Preservation Trust	4,693	3,941
Republic of Palau	<u>14,012</u>	<u>13,894</u>
	<u>\$ 83,795</u>	<u>\$ 84,599</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan

A. General Information about the Pension Plan, Continued:

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2019, for the same measurement date, using the following actuarial assumptions:

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	
Investment Income:	6.74% per year, net of investment expenses	
Inflation:	2.5%	
Interest on Member Contributions:	5.0% per year	
Salary Increase:	3.0% per year	
Expenses:	\$300,000 each year	
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 all other ages	
Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%
Retirement Age:	100% at age 60	
Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor	

**PALAU COMMUNITY ACTION AGENCY
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued

Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.
Duty vs Non-duty related disability:	100% Duty related
Refund of Contributions:	80% of terminated vested members elect a refund of contributions

Investment Rate of Return

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

As of September 30, 2019, the 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 Large Cap Value Equity	10%	8.70%
US Large Cap Growth Equity	10%	9.13%
International Equity	15%	9.19%
Emerging Markets	10%	12.52%
US Aggregate Fixed Income	35%	3.82%
Global Broad Fixed Income	10%	3.40%
Global REIT	<u>10%</u>	8.33%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 2.85% at the current measurement date and 4.16% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2024 for the 2019 measurement date. For years on or after 2024, a discount rate of 2.81% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index Rate.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan

A. General Information about the Pension Plan, Continued:

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Agency, calculated using the discount rate of 2.85%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.85%) or 1.00% higher (3.85%) from the current rate.

<u>1% Decrease 1.85%</u>	<u>Current Single Discount Rate Assumption 2.85%</u>	<u>1% Increase 3.85%</u>
\$ 8,521,126	\$ 7,324,471	\$ 6,334,603

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability. At September 30, 2020 and 2019, the Agency reported a liability of \$7,324,471 and \$5,852,520, respectively, for its proportionate share of the net pension liability. The Agency's proportion of the net pension liability was based on the projection of the Agency's long-term share of contributions to the Fund relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other Government agencies, actuarially determined. At September 30, 2020 and 2019, the Agency's proportion was 2.3744% and 2.3329%, respectively.

Defined Benefit Plan

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Expense. For the years ended September 30, 2020 and 2019, the Agency recognized pension expense of \$782,848 and \$537,227, respectively.

Deferred Outflows and Inflows of Resources. At September 30, 2020 and 2019, the Agency reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change of assumptions	\$ 1,520,065	\$ 667,737
Differences between expected and actual experience	372,477	285,549
Net difference between projected and actual earnings on pension plan investments	20,370	17,387
Contribution subsequent to measurement date	83,795	-
Changes in proportion and difference between the Agency's contributions and proportionate share of contributions	<u>558,171</u>	<u>231,236</u>
	<u>\$ 2,554,878</u>	<u>\$ 1,201,909</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	\$ 523,279	\$ 807,820
Differences between expected and actual experience	461,525	87,394
Net difference between projected and actual earnings on pension plan investments	16,658	25,504
Contribution subsequent to measurement date	84,599	-
Changes in proportion and difference between the Agency's contributions and proportionate share of contributions	<u>775,901</u>	<u>277,378</u>
	<u>\$ 1,861,962</u>	<u>\$ 1,198,096</u>

Defined Benefit Plan

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

<u>Year ending September 30,</u>	
2021	\$ 347,730
2022	297,733
2023	252,184
2024	138,144
2025	59,944
Thereafter	<u>173,448</u>
	<u>\$ 1,269,183</u>

(3) Property and Equipment

Capital asset activities for the years ended September 30, 2020 and 2019, are as follows:

	Balance October 1, <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2020</u>
	Depreciable assets:			
Vehicles	\$ 643,323	\$ 270,783	\$ (67,251)	\$ 846,855
Buildings	750,236	-	-	750,236
Leasehold improvements	367,088	-	-	367,088
Other fixed assets	-	-	-	-
Office furniture and equipment	75,278	-	(14,791)	60,487
Marine equipment	<u>42,926</u>	-	-	<u>42,926</u>
	1,878,851	<u>270,783</u>	<u>(82,042)</u>	2,067,592
Less accumulated depreciation and impairment valuation reserve	<u>(1,128,125)</u>	<u>(66,764)</u>	<u>82,042</u>	<u>(1,112,847)</u>
Capital assets, net	<u>\$ 750,726</u>	<u>\$ 204,019</u>	<u>\$ -</u>	<u>\$ 954,745</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

(3) Property and Equipment, Continued

	Balance October 1, <u>2018</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2019</u>
Depreciable assets:				
Vehicles	\$ 649,723	\$ 9,400	\$(15,800)	\$ 643,323
Buildings	750,236	-	-	750,236
Leasehold improvements	367,088	-	-	367,088
Other fixed assets	32,868	-	(32,868)	-
Office furniture and equipment	77,809	-	(2,531)	75,278
Marine equipment	<u>86,775</u>	-	<u>(43,849)</u>	<u>42,926</u>
	1,964,499	9,400	(95,048)	1,878,851
Less accumulated depreciation and impairment valuation reserve	<u>(1,167,862)</u>	<u>(55,311)</u>	<u>95,048</u>	<u>(1,128,125)</u>
Capital assets, net	\$ <u>796,637</u>	\$ <u>(45,911)</u>	\$ <u>-</u>	\$ <u>750,726</u>

(4) Republic of Palau Appropriation

During the years ended September 30, 2020 and 2019, the Republic of Palau appropriated \$480,000 for operations of the Agency through RPPL 10-53 and RPPL 10-29, respectively, of which \$126,000 was transferred to the Head Start Program as the Agency's local match. The Republic of Palau appropriation of \$458,092 and \$479,686 is recognized and included in contributions in the accompanying financial statements at September 30, 2020 and 2019, respectively.

(5) 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 \$255,020 and \$249,584 at September 30, 2020 and 2019, respectively.

Pension Trust Fund

The Republic of Palau Civil Service Pension Trust Fund's actuarial valuation has determined that the Fund's fiduciary net position will be negative by 2023 if no changes are made in contributions and/or benefits.

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.

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.

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

Notes to Financial Statements
September 30, 2020 and 2019

(6) 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.

(7) Restricted Net Position

The Agency has determined that all assets, liabilities, revenues, expenses, gains and losses resulting from federal grants and contributions are restricted. As of September 30, 2020 and 2019, restricted net position is as follows:

	<u>2020</u>	<u>2019</u>
Head Start Program	\$ 84,335	\$ 142,964
Historical Preservation Program	64,102	64,102
Yap Against Drugs and Alcohol	718	718
Belau Child Care Program	87,339	72,239
Local Programs	<u>492</u>	<u>392</u>
	<u>\$ 236,986</u>	<u>\$ 280,415</u>

(8) Operating Expenses by Program

As of September 30, 2020 and 2019, operating expenses by program are as follows:

	<u>2020</u>	<u>2019</u>
Republic of Palau appropriation	\$ 458,093	\$ 432,877
Head Start	2,450,432	2,264,262
Historical preservation programs	239,565	175,292
Other programs	456	709
Depreciation	66,764	55,311
Pension expense	<u>782,848</u>	<u>537,227</u>
	3,998,158	3,465,678
Acquisition of fixed assets	<u>(270,783)</u>	<u>(9,400)</u>
Total operating expense	<u>\$ 3,727,375</u>	<u>\$ 3,456,278</u>

All costs are charged to programs. There are no unallocated administrative and management costs.

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

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

	<u>2019</u> <u>Valuation</u>	<u>2018</u> <u>Valuation</u>	<u>2017</u> <u>Valuation</u>	<u>2016</u> <u>Valuation</u>	<u>2015</u> <u>Valuation</u>	<u>2014</u> <u>Valuation</u>
Civil Service Pension Trust Fund total net pension liability	\$ 308,480,463	\$ 250,868,784	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232
The Agency's proportionate share of the net pension liability	\$ 7,324,471	\$ 5,852,520	\$ 6,408,662	\$ 5,557,567	\$ 4,647,391	\$ 4,134,448
The Agency's proportion of the net pension liability	2.37%	2.33%	2.47%	2.23%	2.16%	2.02%
The Agency's covered employee payroll**	\$ 1,418,933	\$ 1,368,633	\$ 1,431,317	\$ 1,179,966	\$ 1,045,645	\$ 951,468
The Agency's proportionate share of the net pension liability as a percentage of its covered employee payroll	516.20%	427.62%	447.75%	470.99%	444.45%	434.53%
Plan fiduciary net position as a percentage of the total pension liability	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%

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

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

See accompanying Independent Auditors' Report.

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

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

	<u>2019 Valuation</u>	<u>2018 Valuation</u>	<u>2017 Valuation</u>	<u>2016 Valuation</u>	<u>2015 Valuation</u>	<u>2014 Valuation</u>
Actuarially determined contribution	\$ 406,883	\$ 403,883	\$ 424,422	\$ 321,206	\$ 235,013	\$ 215,009
Contribution in relation to the actuarially determined contribution	<u>84,599</u>	<u>82,118</u>	<u>85,819</u>	<u>69,828</u>	<u>64,814</u>	<u>56,028</u>
Contribution (excess) deficiency	<u>\$ 322,284</u>	<u>\$ 321,765</u>	<u>\$ 338,603</u>	<u>\$ 251,378</u>	<u>\$ 170,199</u>	<u>\$ 158,981</u>
The Agency's covered-employee payroll**	<u>\$ 1,418,933</u>	<u>\$ 1,368,633</u>	<u>\$ 1,431,317</u>	<u>\$ 1,179,966</u>	<u>\$ 1,045,645</u>	<u>\$ 951,468</u>
Contribution as a percentage of covered-employee payroll	5.96%	6.00%	6.00%	5.92%	6.20%	5.89%

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

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

See accompanying Independent Auditors' Report.