PALAU COMMUNITY ACTION AGENCY
(A NONPROFIT CORPORATION)

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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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 statements of net position as of September 30, 2018 and 2017, 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, 2018 and 2017, 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.

Deloitte.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2019, 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.

Deloitte + Touche LLP

June 29, 2019

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Statements of Net Position
September 30, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		2018		2017
Current assets:				
Cash	$	347,406	$	222,447
Receivables:				
Grantor agencies		218,389		249,955
General		2,942		3,873
Allowance for doubtful accounts		(2,490)		(3,081)
Prepaid expenses		3,336		3,556
Total current assets		569,583		476,750
Property and equipment, net		796,637		786,423
Total assets		1,366,220		1,263,173
Deferred outflows of resources from pension		2,538,181		1,830,859
Total assets and deferred outflows of resources	$	3,904,401	$	3,094,032
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current liabilities:				
Accounts payable - trade	$	101,587	$	55,102
Accounts payable - employees		-		159
Due to grantor		49,450		49,450
Accrued expenses		201,179		199,831
Deferred revenue		54,922		65,261
Total current liabilities		407,138		369,803
Net pension liability		6,408,662		5,557,567
Total liabilities		6,815,800		5,927,370
Deferred inflows of resources from pension		780,946		319,031
Total liabilities and deferred inflows of resources		7,596,746		6,246,401
Contingencies				
Net position:				
Net investment in capital assets		796,637		786,423
Restricted		203,718		153,448
Unrestricted		(4,692,700)		(4,092,240)
Total net position		(3,692,345)		(3,152,369)
	$	3,904,401	$	3,094,032

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, 2018 and 2017

		2018		2017
Operating revenues:				
Contributions	$	2,473,118	$	2,395,538
Other		410,013		352,873
Total operating revenues		2,883,131		2,748,411
Operating expenses				
Personnel		1,259,331		1,272,070
Pension costs		605,688		417,458
Project and other costs		539,178		516,112
Rent		301,645		263,161
Fringe benefits		279,803		257,537
Supplies		155,084		166,403
Travel and per diem		83,096		57,794
Depreciation		48,393		50,245
Repairs and maintenance		45,439		29,409
Petroleum, oil and lubricants		35,688		43,748
Contractual services		29,738		78,096
Communications		22,707		25,289
Insurance		15,213		13,148
Facilities/construction		2,104		28,537
Total operating expenses		3,423,107		3,219,007
Change in net position		(539,976)		(470,596)
Net position at beginning of year		(3,152,369)		(2,681,773)
Net position at end of year	$	(3,692,345)	$	(3,152,369)

See accompanying notes to financial statements.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Statements of Cash Flows
Years Ended September 30, 2018 and 2017

		2018		2017
Cash flows from operating activities:				
Grant and contribution receipts	$	2,494,345	$	2,545,559
Other receipts		410,944		356,652
Cash paid to employees		(1,258,142)		(1,252,103)
Cash paid to suppliers		(1,463,581)		(1,490,664)
Net cash provided by operating activities		183,566		159,444
Cash flows from capital and related financing activities:				
Acquisition of property and equipment		(58,607)		(6,850)
Net cash used in capital and related financing activities		(58,607)		(6,850)
Net change in cash		124,959		152,594
Cash at beginning of year		222,447		69,853
Cash at end of year	$	347,406	$	222,447
Reconciliation of change in net position to net cash provided by operating activities:				
Change in net position	$	(539,976)	$	(470,596)
Adjustments to reconcile change in net position to net cash provided by operating activities:				
Depreciation		48,393		50,245
Bad debts		(591)		(432)
Noncash pension costs		605,688		417,458
Decrease in assets:				
Receivables - grantor agencies		31,566		35,410
Receivables - general		931		3,779
Prepaid expenses		220		397
Increase (decrease) in liabilities:				
Accounts payable - trade		46,485		(11,395)
Accounts payable - employees		(159)		(909)
Due to grantor		-		49,450
Accrued expenses		1,348		20,876
Deferred revenue		(10,339)		65,161
Net cash provided by operating activities	$	183,566	$	159,444

See accompanying notes to financial statements.

(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.

(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, 2018 and 2017, the Agency received $334,877 and $306,200, 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, 2018 and 2017, the total carrying value of cash was $347,406 and $222,447, respectively, and the corresponding bank balances were $402,562 and $308,361, 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, 2018 and 2017.

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:

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment and Depreciation, Continued

	Estimated Useful Lives
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, 2018 and 2017, 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 $71,099 and $70,676 as of September 30, 2018 and 2017, 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.

(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

During the year ended September 30, 2018, the following accounting pronouncements were implemented:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, *GASB issued Statement No. 84, Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(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 Fund), 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 Fund was established pursuant to Republic of Palau Public Law (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 Fund 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 Fund'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 September 30, 2017, the date of the most recent valuation, plan membership consisted of the following:

Inactive members currently receiving benefits	1,576
Inactive members entitled to but not yet receiving benefits	1,162
Active members	3,422
Total members	6,160

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits. Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after 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. 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 the 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 Fund unless he or she has contributed to the Fund 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 Fund.

Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

Currently, normal benefits are paid monthly and are 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:

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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

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

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.

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

- 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.

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 Fund 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 Fund 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 Fund in order to keep the Fund on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Fund 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 Fund.

The Agency's contributions to the pension plan for the fiscal years 2018 and 2017 totaled $81,935 and $82,514, respectively, and are recorded in the following program categories.

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

	2018	2017
Head Start	$65,146	$ 62,696
Historical Preservation Trust	4,311	5,966
Republic of Palau	12,478	13,852
	$ 81,935	$ 82,514

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2017 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 a remaining amortization period of 30 years
Asset Valuation Method:	Market value of assets
Investment Income:	7.5% per year, net of investment expenses, including price inflation
Expenses:	$300,000 each year
Inflation:	3.0%
Interest on Member Contributions	5.0% per year
Salary Increase:	3.0% per 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% per year prior to age 35; none after age 35

Disability:

Age	Disability
25	0.21%
30	0.18%
35	0.25%
40	0.35%
45	0.50%
50	0.76%
55	1.43%
60	2.12%

Retirement Age: 100% at age 60

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member
Duty vs Non-duty related disability:	100% Duty related
Pre-retirement Beneficiary Benefit Former Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death. 80% of active workers are assumed to be married when they retire. Males are assumed to be 3 years older than their spouses

Long-Term Expected Rate of Return

The long-term expected rate of return on the Fund's investments of 7.5% was determined using log-normal analysis, creating a best-estimate range for each asset class.

As of September 30, 2017, the arithmetic real rates of return for each major investment class are as follows:

Asset Class	Target Allocation	Expected Rate of Return
Cash	3%	4.55%
Equity	61%	6.35%
Governmental fixed income	31%	7.75%
Corporate fixed income	5%	4.00%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 3.62% at the current measurement date and 2.98% 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 2022 for the 2017 measurement date. For years after 2022, a discount rate of 3.57% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit 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 3.62%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (2.62%) or 1.00% higher (4.62%) from the current rate.

1% Decrease 2.62%	Current Single Discount Rate Assumption 3.62%	1% Increase 4.62%
$ 7,420,893	$ 6,408,662	$ 5,568,766

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

Pension Liability. At September 30, 2018 and 2017, the Agency reported a liability of $6,408,662 and $5,557,567, 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, 2018 and 2017, the Agency's proportion was 2.4706% and 2.2279%, respectively.

Pension Expense. For the years ended September 30, 2018 and 2017, the Agency recognized pension expense of $605,688 and $417,458, respectively.

Deferred Outflows and Inflows of Resources. At September 30, 2018 and 2017, the Agency reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	$ 749,361	$ 607,107
Differences between expected and actual experience	35,283	31,318
Net difference between projected and actual earnings on pension plan investments	589,965	125,257
Contribution subsequent to measurement date	81,935	-
Changes in proportion and difference between the Agency's contributions and proportionate share of contributions	1,081,637	17,264
	$ 2,538,181	$ 780,946

(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

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	$ 851,755	$ 131,429
Differences between expected and actual experience	-	142,442
Net difference between projected and actual earnings on pension plan investments	47,725	10,803
Contribution subsequent to measurement date	82,514	-
Changes in proportion and difference between the Agency's contributions and proportionate share of contributions	848,865	34,357
	$ 1,830,859	$ 319,031

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, 2018 will be recognized in pension expense as follows:

Year ending September 30,	
2019	$ 395,269
2020	487,238
2021	288,691
2022	238,279
2023	192,363
Thereafter	73,460

(3) Property and Equipment

Capital asset activities for the years ended September 30, 2018 and 2017, are as follows:

	Balance October 1, 2017	Additions	Deletions	Balance September 30, 2018
Depreciable assets:				
Vehicles	$ 638,699	$ 58,607	$ (47,583)	$ 649,723
Buildings	750,236	-		750,236
Leasehold improvements	367,088	-	-	367,088
Other fixed assets	32,868	-	-	32,868
Office furniture and equipment	77,809	-	-	77,809
Marine equipment	86,775	-	-	86,775
	1,953,475	58,607	(47,583)	1,964,499
Less accumulated depreciation and impairment valuation reserve	(1,167,052)	(48,393)	47,583	(1,167,862)
Capital assets, net	$ 786,423	$ 10,214	$ -	$ 796,637

(3) Property and Equipment, Continued

		Balance October 1, 2016		Additions		Deletions		Balance September 30, 2017
Depreciable assets:								
Vehicles	$	638,739	$	-	$	(40)	$	638,699
Buildings		750,236		-				750,236
Leasehold improvements		367,088		-		-		367,088
Other fixed assets		32,868		-		-		32,868
Office furniture and equipment		70,959		6,850		-		77,809
Marine equipment		86,775		-		-		86,775
		1,946,665		6,850		(40)		1,953,475
Less accumulated depreciation and impairment valuation reserve		(1,116,847)		(50,245)		40		(1,167,052)
Capital assets, net	$	829,818	$	(43,395)	$	-	$	786,423

(4) Republic of Palau Appropriation

During the years ended September 30, 2018 and 2017, the Republic of Palau appropriated $480,000 and $467,000, respectively, for operations of the Agency through RPPL 10-12 and RPPL 10-01, respectively, of which $126,000 and $113,000, respectively, was transferred to the Head Start Program as the Agency's local match. The Republic of Palau appropriation of $510,568 and $401,739 is included in contributions in the accompanying financial statements at September 30, 2018 and 2017, 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 $159,917 and $113,538 at September 30, 2018 and 2017, 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 2022 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.

(5) 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.

(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, 2018 and 2017, restricted net position is as follows:

	2018	2017
Head Start Program	$ 79,790	$ 43,335
Historical Preservation Program	64,101	63,011
Yap Against Drugs and Alcohol	718	718
Belau Child Care Program	58,717	45,992
Local Programs	392	392
	$ 203,718	$ 153,448

(8) Operating Expenses by Program

As of September 30, 2018 and 2017, operating expenses by program are as follows:

	2018	2017
Republic of Palau appropriation	$ 527,785	$ 451,190
Head Start	2,135,247	2,088,724
Historical preservation programs	162,726	211,185
Yap Against Drugs and Alcohol	-	145
Other programs	1,875	6,910
Depreciation	48,393	50,245
Pension expense	605,688	417,458
	3,481,714	3,225,857
Acquisition of fixed assets	(58,607)	(6,850)
Total operating expense	$ 3,423,107	$ 3,219,007

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*

	2017 Valuation	2016 Valuation	2015 Valuation
Civil Service Pension Trust Fund total net pension liability	$ 259,395,005	$ 249,453,960	$ 215,546,176
The Agency's proportionate share of the net pension liability	$ 6,408,662	$ 5,557,567	$ 4,647,391
The Agency's proportion of the net pension liability	2.47%	2.23%	2.16%
The Agency's covered employee payroll**	$ 1,431,317	$ 1,179,966	$ 1,045,645
The Agency's proportionate share of the net pension liability as a percentage of its covered employee payroll	447.75%	470.99%	444.45%
Plan fiduciary net position as a percentage of the total pension liability	10.18%	10.55%	11.54%

* 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*

	2017 Valuation	2016 Valuation	2015 Valuation
Actuarially determined contribution	$ 424,422	$ 321,206	$ 235,013
Contribution in relation to the actuarially determined contribution	85,819	69,828	64,814
Contribution (excess) deficiency	$ 338,603	$ 251,378	$ 170,199
The Agency's covered-employee payroll**	$ 1,431,317	$ 1,179,966	$ 1,045,645
Contribution as a percentage of covered-employee payroll	6.00%	5.92%	6.20%

* 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.