

PALAU COMMUNITY ACTION AGENCY
(A NONPROFIT CORPORATION)

REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2006

PALAU COMMUNITY ACTION AGENCY
(A NONPROFIT CORPORATION)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2006

INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Community Action Agency:

We have audited the accompanying statement of financial position of the Palau Community Action Agency (the Agency) (a nonprofit corporation) as of September 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Agency as of September 30, 2006, and the changes in its net assets and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 9 to the accompanying financial statements, the Agency restated its 2005 financial statements for the correction of an error.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Agency, taken as a whole. The Combining Statement of Activities (page 12) is presented for the purpose of additional analysis and is not a required part of the financial statements. This statement is the responsibility of the management of the Agency. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2007, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

October 8, 2007

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Statement of Financial Position
September 30, 2006

ASSETS

Current assets:	
Cash	\$ 20,199
Receivables:	
Grantor agencies	201,181
General	36,393
Employees	7,650
Allowance for doubtful accounts	(5,695)
Prepaid expenses	<u>14,391</u>
Total current assets	274,119
Property, plant and equipment, net	<u>924,069</u>
	<u>\$ 1,198,188</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable - trade	\$ 74,440
Accounts payable - employees	897
Accrued expenses	<u>128,837</u>
Total current liabilities	<u>204,174</u>
Commitment and contingencies	
Net assets:	
Unrestricted	(40,812)
Temporarily restricted	110,757
Permanently restricted	<u>924,069</u>
Total net assets	<u>994,014</u>
	<u>\$ 1,198,188</u>

See accompanying notes to financial statements.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Statement of Activities
Year Ended September 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 370,000	\$ 1,691,186	\$ -	\$ 2,061,186
Other	-	346,419	-	346,419
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>2,023,280</u>	<u>(2,023,280)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>2,393,280</u>	<u>14,325</u>	<u>-</u>	<u>2,407,605</u>
Expenses and losses:				
Program services:				
Headstart	1,683,098	-	-	1,683,098
Historical preservation	184,156	-	-	184,156
Parent's assistance programs	392	-	-	392
Supporting services:				
Republic of Palau	237,462	-	-	237,462
Local program	13,015	-	-	13,015
Depreciation	<u>-</u>	<u>-</u>	<u>112,795</u>	<u>112,795</u>
Total expenses and losses	<u>2,118,123</u>	<u>-</u>	<u>112,795</u>	<u>2,230,918</u>
Other changes in net assets:				
Acquisition of capital assets	<u>(282,619)</u>	<u>-</u>	<u>282,619</u>	<u>-</u>
Total other changes in net assets	<u>(282,619)</u>	<u>-</u>	<u>282,619</u>	<u>-</u>
Change in net assets	(7,462)	14,325	169,824	176,687
Net assets at beginning of year	<u>(33,350)</u>	<u>96,432</u>	<u>754,245</u>	<u>817,327</u>
Net assets at end of year	<u>\$ (40,812)</u>	<u>\$ 110,757</u>	<u>\$ 924,069</u>	<u>\$ 994,014</u>

See accompanying notes to financial statements.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Statement of Cash Flows
Year Ended September 30, 2006

Cash flows from operating activities:	
Change in net assets	\$ 176,687
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Gain on disposal of fixed assets	(12,810)
Depreciation	112,795
Bad debts	9,833
Increase in assets:	
Receivables grantor agencies	(21,178)
Receivables general	(6,559)
Receivables employees	(9,965)
Prepaid expenses	(2,870)
Increase (decrease) in liabilities:	
Accounts payable - trade	(5,046)
Accounts payable - employees	88
Accrued expenses	(4,523)
Net cash provided by operating activities	<u>236,452</u>
Cash flows from investing activities:	
Acquisition of fixed assets	(282,619)
Proceeds from sale of fixed assets	<u>12,810</u>
Net cash used in investing activities	<u>(269,809)</u>
Net decrease in cash	(33,357)
Cash at beginning of year	<u>53,556</u>
Cash at end of year	<u><u>\$ 20,199</u></u>
Supplemental Schedule of Noncash Activities:	
Noncash increase in operating expenses	\$ 248,360
Noncash acquisition of fixed assets	10,369
Noncash increase in contributions	<u>(258,729)</u>
Net effect	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2006

(1) Organization

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

(2) Summary of Significant Accounting Policies

The financial statements of the Agency have been prepared on the accrual basis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Accounting Standards

The Agency adheres to the provisions of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS 116 establishes standards for accounting for contributions. SFAS 117 establishes broad standards for reporting information in financial statements issued by not-for-profit organizations and requires these financial statements to focus on the entity as a whole. Amounts related to an organization's financial position and activities are to be reported in three classes of net assets; permanently restricted, temporarily restricted and unrestricted.

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

- Unrestricted
- Temporarily restricted
- Permanently restricted

The Agency has determined that all assets, liabilities, revenues, expenses, gains and losses from ROP Appropriation are unrestricted. The Agency has determined that all assets, liabilities, revenues, expenses, gains and losses resulting from federal grants and contributions are temporarily restricted. The Agency has determined that equipment and related transfers and depreciation expense, are permanently restricted.

Net Assets

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

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

Net Assets, Continued

Temporarily restricted net assets of \$110,757 are available as of September 30, 2006.

Net assets were released from restrictions due to satisfaction of donor imposed restrictions in the amount of \$2,023,280 for the year ended September 30, 2006.

The Agency has a deficit of \$40,812 as of September 30, 2006. The Agency expects to receive subsequent ROP Appropriation in 2007 to cover the deficit.

Contributions

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

Cash

For purposes of the statements of financial position and cash flows, the Agency considers cash to be cash on hand and cash in checking and savings accounts. At September 30, 2006, total cash was \$20,199 and the corresponding bank balances were \$61,137. All of the bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006, bank deposits in the amount of \$61,137 were FDIC insured.

Property, Plant and Equipment and Depreciation

During the year ended September 30, 2006, \$282,619 was used for the construction of buildings and acquisition of equipment. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. All capital assets are accounted for at cost in the permanently restricted fund. The Agency has adopted a policy of capitalizing capital assets with a unit cost of \$500 or more and an estimated useful life of more than one year in the permanently restricted fund. Capital assets with a unit cost of less than \$500 is inventoried but not included in the permanently restricted fund.

Accrued Annual Leave

The Agency recognizes costs for accrued annual leave at the time such leave is earned. Unpaid accrued annual leave is included as an expense and accrued expenses payable. The liability as of September 30, 2006 is \$55,113.

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.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

Republic of Palau Civil Service Pension Trust Fund

The Agency contributes to the Palau Civil Service Pension Trust Fund (the Fund), a defined benefit, cost-sharing multi-employer pension plan established and administered by the Republic of Palau (the Republic).

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

Under the provisions of RPPL No. 2-26, the Pension Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law, and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. The Agency's payroll for fiscal year 2006, except for part-time or temporary staff, was covered by the Fund's pension plan.

The Fund utilizes the actuarial cost method termed "agreement cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 8.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

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

The Fund's October 1, 2005 actuarial valuation determined the unfunded pension benefit obligation as follows:

Participants in pay status	\$ 47,711,000
Active participants	33,893,000
Participants with vested deferred benefits	<u>1,565,000</u>
Total pension benefit obligation	83,169,000
Net assets available for benefits, at market value	<u>41,965,000</u>
Unfunded benefit obligation	\$ <u>41,204,000</u>

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2006

(3) Functional Allocation of Expenses

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

(4) Property, Plant and Equipment

Summarized below is the Agency's investment in equipment and changes for the year ended September 30, 2006:

	<u>Estimated Useful Lives</u>	
Vehicles	3 - 6 years	\$ 661,305
Office furniture and equipment	3 - 15 years	318,640
Buildings	30 years	662,231
Other fixed assets	3 - 8 years	124,543
Marine equipment	3 - 7 years	<u>87,827</u>
		1,854,546
Less accumulated depreciation		<u>(930,477)</u>
		\$ <u>924,069</u>

(5) Republic of Palau Appropriation

During the year ended September 30, 2006, the Republic appropriated \$370,000 for operations of the Agency through RPPL 7-13 and RPPL 7-20. This funding was derived from Compact Section 211(a) of which \$250,000 has been reported as unrestricted contributions and \$120,000 as temporarily restricted contributions by the Agency.

(6) Commitment

The Agency entered into three construction contracts during the year ended September 30, 2006 for the construction of the administration building parking lot, Olbedekall (Airai) Center and the Echang Head Start Center. The Agency's commitments under the contracts amounted to \$93,576 at September 30, 2006.

(7) 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 \$175,612 at September 30, 2006.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2006

(7) Contingencies, Continued

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.

Certain noncompliance with federal program requirements have occurred and management believes the resolution of such will not have a material impact on the accompanying financial statements. Matters associated with the resolution of such noncompliance will be addressed prospectively.

The Agency participates in federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$45,945 have been set forth in the Agency's Single Audit Report for the year ended September 30, 2006. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Insurance Risk

The Agency insures its furniture, equipment and vehicles, however, management has elected not to insure its buildings. In the event of a catastrophe, the Agency may be self-insured to a material extent.

(8) 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.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2006

(9) Restatement

During the year ended September 30, 2006, the Agency determined that all assets, liabilities, revenues, expenses, gains and losses from ROP Appropriation are unrestricted. The following restatement adjusts affected beginning unrestricted and temporarily restricted net asset balances:

	<u>Balance</u> <u>At 09/30/05</u>	<u>Restatement</u>	<u>Beginning</u> <u>Balance</u> <u>at 10/01/05</u>
Unrestricted	\$ -	\$ (33,350)	\$ (33,350)
Temporarily restricted	63,082	33,350	96,432
Permanently restricted	<u>754,245</u>	<u>-</u>	<u>754,245</u>
	<u>\$ 817,327</u>	<u>\$ -</u>	<u>\$ 817,327</u>

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Combining Statement of Activities
Year Ended September 30, 2006

	Headstart Program	HPF Program	BCCF Program	ROP Appropriation	UNDP Program	Indirect Costs	Local Program	Eliminations (See Note)	Total
Revenues and other support:									
Contributions	\$ 1,527,795	\$ 163,391	\$ -	\$ 370,000	\$ -	\$ -	\$ -	\$ -	\$ 2,061,186
Other	421,344	28,445	15,899	-	-	123,788	13,178	(256,235)	346,419
Net assets released from restrictions:									
Satisfaction of program restrictions:									
Personnel	(791,754)	(85,197)	-	(163,428)	-	(70,434)	-	-	(1,110,813)
Contractual services	(12,877)	-	-	(1,905)	-	(9,731)	-	-	(24,513)
Travel and per diem	(18,223)	(18,954)	-	(4,542)	-	(14,310)	-	-	(56,029)
Fringe benefits	(122,616)	(8,834)	-	(20,894)	-	(9,182)	-	-	(161,526)
Supplies	(122,553)	(10,496)	(392)	(4,752)	-	(6,634)	(4,478)	-	(149,305)
Training	(1,223)	-	-	(150)	-	-	-	-	(1,373)
Rent	(241,676)	(4,800)	-	(14,000)	-	(3,500)	-	-	(263,976)
Insurance	(29,949)	-	-	(3,422)	-	(1,947)	-	-	(35,318)
Petroleum, oil and lubricants	(32,212)	(1,100)	-	-	-	-	-	-	(33,312)
Repairs and maintenance	(21,503)	(1,744)	-	(3,764)	-	(1,879)	-	-	(28,890)
Communications	(13,808)	(100)	-	(5,036)	-	(1,824)	-	-	(20,768)
Project and other costs	(274,704)	(52,931)	-	(135,569)	-	(132)	(25,199)	256,235	(232,300)
Acquisition of equipment	(198,579)	(7,680)	-	(20,000)	-	(3,990)	(52,370)	-	(282,619)
Change in net assets	67,462	-	15,507	(7,462)	-	225	(68,869)	-	6,863
Net assets at beginning of year	-	-	-	(33,350)	15,403	(225)	81,254	-	63,082
Net assets at end of year	\$ 67,462	\$ -	\$ 15,507	\$ (40,812)	\$ 15,403	\$ -	\$ 12,385	\$ -	\$ 69,945

Note: Eliminations represent the following:

- (a) Indirect cost revenues of \$123,788 were transferred from the Headstart Program (\$107,506) and Historical Preservation Program (\$16,282).
- (b) BCCF miscellaneous revenue of \$12,447 was transferred from the Local Program.
- (c) HS miscellaneous revenue of \$120,000 was transferred from ROP Appropriation.

See Accompanying Independent Auditors' Report.