

PALAU COMMUNITY ACTION AGENCY
(A NONPROFIT CORPORATION)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2013

INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Community Action Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of the Palau Community Action Agency (the Agency) (a nonprofit corporation), which comprise the statements of financial position as of September 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palau Community Action Agency as of September 30, 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

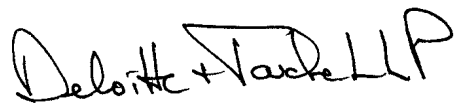
Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2014 on our consideration of the Palau Community Action Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Palau Community Action Agency's internal control over financial reporting and compliance.



June 27, 2014

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Statement of Financial Position
September 30, 2013

ASSETS

Current assets:	
Cash	\$ 33,725
Receivables:	
Grantor agencies	155,868
General	19,409
Allowance for doubtful accounts	(2,763)
Prepaid expenses	4,294
Total current assets	<u>210,533</u>
Property and equipment, net of depreciation and impairment valuation loss	<u>783,968</u>
	<u>\$ 994,501</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable - trade	\$ 64,148
Accounts payable - employees	670
Accrued expenses	125,233
Total current liabilities	<u>190,051</u>
Contingencies	
Net assets:	
Unrestricted	7,371
Temporarily restricted	797,079
Total net assets	<u>804,450</u>
	<u>\$ 994,501</u>

See accompanying notes to financial statements.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Statement of Activities
Year Ended September 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 289,000	\$ 1,488,186	\$ 1,777,186
Other	6,438	362,432	368,870
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>2,055,837</u>	<u>(2,055,837)</u>	<u>-</u>
Total revenues and other support	<u>2,351,275</u>	<u>(205,219)</u>	<u>2,146,056</u>
Expenses and losses:			
Program services:			
Headstart	1,827,938	-	1,827,938
Historical Preservation Trust	188,785	-	188,785
T8AA/British Broadcasting Corporation program	5,803	-	5,803
Pacific Adaptation to Climate Change program	4,473	-	4,473
Belau Child Care Fund program	962	-	962
Supporting services:			
Republic of Palau	277,949	-	277,949
Depreciation		69,108	69,108
Impairment valuation loss	<u>-</u>	<u>54,968</u>	<u>54,968</u>
Total expenses and losses	<u>2,305,910</u>	<u>124,076</u>	<u>2,429,986</u>
Other changes in net assets:			
Interfund transfers	(1,968)	1,968	-
Acquisition of capital assets	<u>(27,876)</u>	<u>27,876</u>	<u>-</u>
Change in net assets	15,521	(299,451)	(283,930)
Net assets at beginning of year	<u>(8,150)</u>	<u>1,096,530</u>	<u>1,088,380</u>
Net assets at end of year	<u>\$ 7,371</u>	<u>\$ 797,079</u>	<u>\$ 804,450</u>

See accompanying notes to financial statements.

PALAU COMMUNITY ACTION AGENCY

(A Nonprofit Corporation)

Statement of Functional Expenses
Year Ended September 30, 2013

Personnel	\$ 854,902
Project and other costs	519,356
Rent	258,979
Fringe benefits	180,759
Supplies	154,323
Contractual services	116,774
Repairs and maintenance	74,749
Depreciation	69,108
Petroleum, oil and lubricants	55,249
Impairment valuation loss	54,968
Travel and per diem	46,074
Insurance	17,757
Communications	17,051
Facilities/construction	9,937
	<u>\$ 2,429,986</u>

See accompanying notes to financial statements.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Statement of Cash Flows
Year Ended September 30, 2013

Cash flows from operating activities:	
Change in net assets	\$ (283,930)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	69,108
Impairment valuation loss	54,968
(Increase) decrease in assets:	
Receivables - grantor agencies	227,383
Receivables - general	(17,907)
Receivables - employees	4,706
Prepaid expenses	16,972
Increase (decrease) in liabilities:	
Accounts payable - trade	(14,328)
Accrued expenses	(31,375)
Net cash used in operating activities	<u>25,597</u>
Cash flows from investing activities:	
Acquisition of fixed assets	<u>(27,876)</u>
Net cash used in investing activities	<u>(27,876)</u>
Net decrease in cash	(2,279)
Cash at beginning of year	<u>36,004</u>
Cash at end of year	<u><u>\$ 33,725</u></u>
Supplemental schedule of noncash activities:	
Noncash increase in operating expenses	\$ 433,623
Noncash increase in contributions	<u>(433,623)</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, 2013

(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 of accounting in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Accounting Standards

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

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

- Unrestricted
- Temporarily restricted
- Permanently restricted

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

Estimates

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

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Net Assets

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

Temporarily restricted net assets of \$797,079 are available as of September 30, 2013.

Net assets of \$2,055,837 were released from restrictions due to satisfaction of donor imposed restrictions for the year ended September 30, 2013.

Contributions

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

During the year ended September 30, 2013, the Agency received \$433,623 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.

The Agency received a gross contribution of \$1,657,210 of which \$163,273 was applied against prior year receivables.

Cash

For purposes of the statement of financial position and of cash flows, the Agency considers cash to be cash on hand and cash in checking and savings accounts. At September 30, 2013, total cash was \$33,725 and the corresponding bank balances were \$72,907. 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, 2013.

Allowance for Doubtful Accounts

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

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment and Depreciation

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

Long-Lived Assets

Long-lived assets are reviewed by the Agency for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. During the year ended September 30, 2013, the Agency determined that a change in circumstances indicated that the impairment of its long-lived assets had occurred in the amount of \$54,968, which is included in depreciation and impairment valuation losses in the accompanying financial statements.

Accrued Annual Leave

The Agency recognizes costs for accrued annual leave at the time such leave is earned. Unpaid accrued annual leave of \$43,972 is recorded within accrued expenses in the accompanying statement of financial position.

Taxes

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

Republic of Palau Civil Service Pension Trust Fund

The Agency contributes to the Republic of 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 issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Palau 96940.

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.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued

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 2013 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, 2011 actuarial valuation determined the unfunded pension benefit obligation as follows:

Active participants	\$ 74,716,975
Participants in pay status	62,987,516
Participants with vested deferred benefits	<u>2,323,366</u>
Total pension benefit obligation	140,027,857
Net assets available for benefits, at market value	<u>36,128,666</u>
Unfunded benefit obligation	\$ <u>103,899,191</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.

The Agency's pension plan expense for the fiscal year 2013 totaled \$37,469 and is recorded in the following expense categories in the accompanying statement of activities:

Headstart	\$ 29,918
Historical Preservation Trust	2,243
Republic of Palau	<u>5,308</u>
	\$ <u>37,469</u>

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2013

(3) Functional Allocation of Expenses

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

(4) Property and Equipment

Summarized below is the Agency's investment in property and equipment for the year ended September 30, 2013:

	<u>Estimated Useful Lives</u>	
Vehicles	3 - 6 years	\$ 665,016
Buildings	30 years	646,342
Leasehold improvements	30 years	365,336
Other fixed assets	3 - 8 years	32,868
Office furniture and equipment	3 - 15 years	77,214
Marine equipment	3 - 7 years	<u>43,849</u>
		1,830,625
Less accumulated depreciation and impairment valuation loss		<u>1,046,657</u>
		<u>\$ 783,968</u>

During the year ended September 30, 2013, the Agency recorded an impairment reserve of \$54,968 for applicable leasehold improvements.

(5) Republic of Palau Appropriation

During the year ended September 30, 2013, the Republic of Palau appropriated \$289,000 for operations of the Agency through RPPL 9-5, of which \$93,000 was transferred to the Headstart Program as the Agency's local match.

(6) Contingencies

Sick Leave

It is the policy of the Agency to record an expense for sick leave when leave is actually taken. Sick leave is compensated time for absence during work hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave is \$121,234 at September 30, 2013.

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, 2013

(7) Temporarily Restricted Contribution

During the year ended September 30, 2013, the Agency received a gross contribution of \$1,657,210 of which \$163,273 was applied against prior year receivables.

(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.

(9) Subsequent Events

The Agency has identified June 27, 2014 as the date the financial statements were available to be issued and the date through which subsequent events have been evaluated. The Agency has not identified any subsequent events that required adjustment to or disclosure in the financial statements as of September 30, 2013.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Combining Statement of Activities
Year Ended September 30, 2013

	Unrestricted Fund				Temporarily Restricted Funds								Total Restricted Funds	Total All Funds	
	ROP Appropriations	Headstart Program	Indirect Costs	Eliminations (See Note)	Total Headstart Program	HPF Program	BCCF Program	PSG Program	PACC Program	T8AA/BBC	Local Program	Subtotal			Property and Equipment
Revenues and other supports:															
Contributions	\$ 289,000	\$1,320,047	\$ -	\$ -	\$ 1,320,047	\$168,139	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,488,186	\$ -	\$ 1,488,186	\$ 1,777,186
Other	6,438	439,098	133,557	(226,557)	346,098	6,245	6,089	-	-	4,000	-	362,432	-	362,432	368,870
Total revenues and other support	295,438	1,759,145	133,557	(226,557)	1,666,145	174,384	6,089	-	-	4,000	-	1,850,618	-	1,850,618	2,146,056
Expenses and losses:															
Personnel	76,081	749,264	73,212	(109,492)	712,984	65,837	-	-	-	-	-	778,821	-	778,821	854,902
Contractual services	-	78,474	10,520	(10,520)	78,474	37,400	-	-	900	-	-	116,774	-	116,774	116,774
Travel and per diem	10,733	35,341	351	(351)	35,341	-	-	-	-	-	-	35,341	-	35,341	46,074
Fringe benefits	12,804	151,492	13,648	(19,611)	145,529	22,426	-	-	-	-	-	167,955	-	167,955	180,759
Supplies	11,442	133,348	12,304	(12,304)	133,348	5,842	312	-	1,108	2,271	-	142,881	-	142,881	154,323
Facilities/construction	-	9,937	-	-	9,937	-	-	-	-	-	-	9,937	-	9,937	9,937
Rent	-	250,289	-	-	250,289	8,690	-	-	-	-	-	258,979	-	258,979	258,979
Insurance	2,020	15,377	1,739	(1,739)	15,377	-	360	-	-	-	-	15,737	-	15,737	17,757
Petroleum, oil and lubricants	-	51,807	3,560	(8,348)	47,019	3,266	-	-	1,806	3,158	-	55,249	-	55,249	55,249
Repairs and maintenance	2,536	77,713	1,699	(8,077)	71,335	145	-	-	359	374	-	72,213	-	72,213	74,749
Communications	2,734	12,427	3,826	(3,826)	12,427	1,600	290	-	-	-	-	14,317	-	14,317	17,051
Project and other costs	159,599	355,469	12,698	(52,289)	315,878	43,579	-	-	300	-	-	359,757	-	359,757	519,356
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	69,108	69,108	69,108
Impairment valuation loss	-	-	-	-	-	-	-	-	-	-	-	-	54,968	54,968	54,968
	277,949	1,920,938	133,557	(226,557)	1,827,938	188,785	962	-	4,473	5,803	-	2,027,961	124,076	2,152,037	2,429,986
Other changes in net assets:															
Interfund transfers	(1,968)	-	-	-	-	-	-	778	-	-	1,190	1,968	-	1,968	-
Acquisition of capital assets	-	(27,876)	-	-	(27,876)	-	-	-	-	-	-	(27,876)	27,876	-	-
	(1,968)	(27,876)	-	-	(27,876)	-	-	778	-	-	1,190	(25,908)	27,876	1,968	-
Changes in net assets	15,521	(189,669)	-	-	(189,669)	(14,401)	5,127	778	(4,473)	(1,803)	1,190	(203,251)	(96,200)	(299,451)	(283,930)
Net assets at beginning of year	(8,150)	189,669	-	-	189,669	20,449	763	(778)	4,857	2,592	(1,190)	216,362	880,168	1,096,530	1,088,380
Net assets at end of year	\$ 7,371	\$ -	\$ -	\$ -	\$ -	\$ 6,048	\$ 5,890	\$ -	\$ 384	\$ 789	\$ -	\$ 13,111	\$ 783,968	797,079	804,450

Note: Eliminations represent the following:

- (a) Indirect cost revenues of \$133,557 were transferred from the Headstart Program of \$120,196 and Historical Preservation Program of \$13,361.
- (b) Headstart program revenue of \$93,000 was transferred from ROP Appropriation.

See accompanying Independent Auditors' Report.