

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, 2011

PALAU COMMUNITY ACTION AGENCY
(A NONPROFIT CORPORATION)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2011

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, 2011, 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, 2011, and the changes in its net assets and in its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2012, on our consideration of the 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* and should be considered in assessing the results of our audit.

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 11) 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.

Deloitte & Touche LLC

November 14, 2012

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Statement of Financial Position
September 30, 2011

ASSETS

Current assets:	
Cash	\$ 79,452
Receivables:	
Grantor agencies	429,194
General	5,989
Employees	6,468
Allowance for doubtful accounts	(4,468)
Prepaid expenses	<u>19,376</u>
Total current assets	536,011
Property and equipment, net	<u>880,782</u>
	<u>\$ 1,416,793</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable - trade	\$ 71,025
Accounts payable - employees	1,583
Due to grantor	86,261
Accrued expenses	<u>166,922</u>
Total current liabilities	<u>325,791</u>
Contingencies	
Net assets:	
Unrestricted	-
Temporarily restricted	<u>1,091,002</u>
Total net assets	<u>1,091,002</u>
	<u>\$ 1,416,793</u>

See accompanying notes to financial statements.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Statement of Activities
Year Ended September 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 277,000	\$ 1,640,292	\$ 1,917,292
Other	-	280,901	280,901
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>1,904,648</u>	<u>(1,904,648)</u>	<u>-</u>
Total revenues and other support	<u>2,181,648</u>	<u>16,545</u>	<u>2,198,193</u>
Expenses and losses:			
Program services:			
Headstart	1,608,549	-	1,608,549
Historical preservation	256,976	-	256,976
MSIP/CSM	14,183	-	14,183
PACC program	4,935	-	4,935
PSG program	1,118	-	1,118
Supporting services:			
Republic of Palau	277,352	-	277,352
Local program	18,535	-	18,535
Depreciation	<u>-</u>	<u>117,331</u>	<u>117,331</u>
Total expenses and losses	<u>2,181,648</u>	<u>117,331</u>	<u>2,298,979</u>
Change in net assets	-	(100,786)	(100,786)
Net assets at beginning of year	<u>-</u>	<u>1,191,788</u>	<u>1,191,788</u>
Net assets at end of year	<u>\$ -</u>	<u>\$ 1,091,002</u>	<u>\$ 1,091,002</u>

See accompanying notes to financial statements.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Statement of Cash Flows
Year Ended September 30, 2011

Cash flows from operating activities:	
Change in net assets	\$ (100,786)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	117,331
(Increase) decrease in assets:	
Receivables - grantor agencies	(15,048)
Receivables - general	44,269
Receivables - employees	(1,288)
Prepaid expenses	(12,126)
Increase (decrease) in liabilities:	
Accounts payable - trade	(10,754)
Accounts payable - employees	(1,380)
Due to grantor	(29,562)
Accrued expenses	<u>2,781</u>
Net cash used in operating activities	<u>(6,563)</u>
Net decrease in cash	(6,563)
Cash at beginning of year	<u>86,015</u>
Cash at end of year	<u><u>\$ 79,452</u></u>
Supplemental schedule of noncash activities:	
Noncash increase in operating expenses	\$ 340,809
Noncash increase in contributions	<u>(340,809)</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, 2011

(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 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.

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, 2011

(1) Summary of Significant Accounting Policies, Continued

Temporarily restricted net assets of \$1,091,002 are available as of September 30, 2011.

Net assets were released from restrictions due to satisfaction of donor imposed restrictions in the amount of \$1,904,648 for the year ended September 30, 2011.

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 that increases the net asset class.

During the year ended September 30, 2011, the Agency received \$340,809 of in-kind contributions. These contributions are reflected as contributions and operating expenses in the accompanying financial statements.

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

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

Cash

For purposes of the statement of financial position and of cash flows, the Agency considers cash to be cash on hand and cash in checking and savings accounts. At September 30, 2011, total cash was \$79,452 and the corresponding bank balances were \$95,029. 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, 2011.

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.

Property, Plant and Equipment and Depreciation

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 and depreciation is computed on a straight-line basis over the estimated useful lives of the assets. 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 a unit cost of less than \$5,000 are inventoried but are not capitalized in the financial statements.

PALAU COMMUNITY ACTION AGENCY
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Notes to Financial Statements
September 30, 2011

(2) Summary of Significant Accounting Policies, Continued

Accrued Annual Leave

The Agency recognizes costs for accrued annual leave at the time such leave is earned. Unpaid accrued annual leave of \$72,614 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.

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 2011, 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.

PALAU COMMUNITY ACTION AGENCY
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Notes to Financial Statements
September 30, 2011

(2) Summary of Significant Accounting Policies, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued

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, 2009 actuarial valuation determined the unfunded pension benefit obligation as follows:

Active participants		\$ 56,060,970
Participants in pay status		47,666,805
Participants with vested deferred benefits		<u>1,779,610</u>
 Total pension benefit obligation		 105,507,385
Net assets available for benefits, at market value		<u>41,254,319</u>
 Unfunded benefit obligation		 \$ <u>64,253,066</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.

(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, 2011:

	<u>Estimated Useful Lives</u>	
Vehicles	3 - 6 years	\$ 667,776
Buildings	30 years	595,981
Leasehold improvements	30 years	305,643
Office furniture and equipment	3 - 15 years	90,168
Other fixed assets	3 - 8 years	89,568
Marine equipment	3 - 7 years	<u>43,849</u>
		1,792,985
Less accumulated depreciation		<u>(912,203)</u>
		\$ <u>880,782</u>

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Notes to Financial Statements
September 30, 2011

(5) Republic of Palau Appropriation

During the year ended September 30, 2011, the Republic of Palau appropriated \$277,000 for operations of the Agency through RPPL 8-18 and RPPL 8-29. This funding was partially derived from Compact Section 211(f) of which \$101,000 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 \$143,076 at September 30, 2011.

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.

(7) Risk Management

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

(8) Subsequent Events

The Agency has identified November 14, 2012 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, 2011.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Combining Statement of Activities
Year Ended September 30, 2011

	Headstart Program	HPF Program	BCCF Program	ROP Appropriation	EU/PREP Program	MSIP/CSM Program	PSG Program	PACC Program	Indirect Costs	Local Program	Property and Equipment	Eliminations (See Note)	Total
Revenues and other support:													
Contributions	\$1,383,316	\$ 256,976	\$ -	\$ 277,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,917,292
Other	345,516	20,146	1,460	355	-	2,597	2,477	9,000	183,790	350	-	(284,790)	280,901
Net assets released from restrictions:													
Satisfaction of program restrictions:													
Personnel	(764,742)	(78,557)	-	(137,843)	-	(4,620)	-	-	(94,818)	-	-	-	(1,080,580)
Contractual services	(31,128)	(17,892)	-	-	-	-	-	-	(4,564)	-	-	-	(53,584)
Travel and per diem	(36,654)	(13,901)	-	-	-	(221)	-	-	(16,788)	-	-	-	(67,564)
Fringe benefits	(148,316)	(24,416)	-	(23,292)	-	(323)	-	-	(19,013)	-	-	-	(215,360)
Supplies	(116,032)	(23,077)	(313)	(1,095)	-	-	-	(14)	(13,064)	-	-	-	(153,595)
Rent	(198,274)	(18,060)	-	-	-	-	-	-	-	-	-	-	(216,334)
Insurance	(17,542)	-	-	(1,887)	-	-	-	-	(1,619)	-	-	-	(21,048)
Petroleum, oil and lubricants	(43,527)	(5,416)	-	(1,439)	-	-	(300)	(1,598)	(3,020)	-	-	-	(55,300)
Repairs and maintenance	(25,539)	(1,409)	-	(1,869)	-	-	-	(858)	(3,957)	-	-	-	(33,632)
Communications	(19,449)	(1,790)	(291)	(2,403)	-	(168)	(329)	-	(3,572)	-	-	-	(28,002)
Project and other costs	(308,346)	(72,458)	(368)	(107,524)	-	(8,851)	(489)	(2,465)	(23,375)	(17,563)	-	284,790	(256,649)
Depreciation	-	-	-	-	-	-	-	-	-	-	(117,331)	-	(117,331)
Change in net assets	19,283	20,146	488	3	-	(11,586)	1,359	4,065	-	(17,213)	(117,331)	-	(100,786)
Net assets at beginning of year	165,338	302	-	(3)	(5,261)	(3,056)	(3,786)	-	-	40,141	998,113	-	1,191,788
Net assets at end of year	\$ 184,621	\$ 20,448	\$ 488	\$ -	\$ (5,261)	\$ (14,642)	\$ (2,427)	\$ 4,065	\$ -	\$ 22,928	\$ 880,782	\$ -	\$1,091,002

Note: Eliminations represent the following:

(a) Indirect cost revenues of \$183,790 were transferred from the Headstart Program \$127,700, Historical Preservation Program \$40,008, MSIP/CSM Project \$5,499, Pacific Adaptation to Climate Change \$9,000, Ministry of State Program \$1,000 and other \$583.

(b) Headstart program revenue of \$101,000 was transferred from ROP Appropriation.

See Accompanying Independent Auditors' Report.