

**PALAU RED CROSS SOCIETY  
(A NONPROFIT ORGANIZATION)**

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**INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS**

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**September 30, 2018 and 2017**

**PALAU RED CROSS SOCIETY**  
**(A Nonprofit Organization)**

September 30, 2018 and 2017

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# **BURGER · COMER · MAGLIARI**

## **CERTIFIED PUBLIC ACCOUNTANTS**

### **INDEPENDENT AUDITORS' REPORT**

To the National Governing Board  
Palau Red Cross Society

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Palau Red Cross Society (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities 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. 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 Red Cross Society as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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### **Report on Summarized Comparative Information**

We have previously audited Palau Red Cross Society's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses on page 6 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

A handwritten signature in black ink, appearing to read "Benigno Maglino". The signature is written in a cursive, flowing style.

Tamuning, Guam  
May 2, 2019

**PALAU RED CROSS SOCIETY**  
**(A NONPROFIT ORGANIZATION)**

Statements of Financial Position  
Years Ended September 30, 2018 and 2017

	<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:			
Cash and cash equivalents		\$ 105,315	\$ 100,386
Accounts receivable		-	50
Other current assets		<u>2,279</u>	<u>325</u>
Total current assets		107,594	100,761
Property and equipment, net		<u>16,296</u>	<u>2,017</u>
Total assets		<u>\$ 123,890</u>	<u>\$ 102,778</u>
 <u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued taxes		\$ 27,611	\$ 22,839
Deferred Revenue		<u>63,000</u>	<u>-</u>
Total current liabilities		<u>90,611</u>	<u>22,839</u>
Net assets:			
Net assets without donor restriction		(45,963)	76,920
Net assets with donor restriction		<u>79,242</u>	<u>3,019</u>
Total net assets		<u>33,279</u>	<u>79,939</u>
Total liabilities and net assets		<u>\$ 123,890</u>	<u>\$ 102,778</u>

See accompanying notes to financial statements.

**PALAU RED CROSS SOCIETY**  
**(A NONPROFIT ORGANIZATION)**

Statements of Activities  
For the Year Ended September 30, 2018  
(With Comparative Totals For The Year Ended September 30, 2017)

	2018			2017
	Without Donor Restriction	With Donor Restriction	Total	Total
Revenues and other supports:				
Contributions	\$ 71,709	\$ -	\$ 71,709	\$ 2,145
Disaster relief	13,675	50,753	64,428	3,019
Grants	14,460	25,470	39,930	10,627
In-kind contribution	36,000	-	36,000	36,000
Interest and other income	37,168	-	37,168	25,331
Total revenues and other support	<u>173,012</u>	<u>76,223</u>	<u>249,235</u>	<u>77,122</u>
Expenses:				
Program services:				
Community services	13,741	-	13,741	8,827
Disaster services	66,201	-	66,201	113
Supporting services:				
Management and general	215,689	-	215,689	69,631
Membership and fundraising	<u>264</u>	<u>-</u>	<u>264</u>	<u>1,021</u>
Total expenses	295,895	-	295,895	79,592
Change in net assets	(122,883)	76,223	(46,660)	(2,470)
Net assets at beginning of year	<u>76,920</u>	<u>3,019</u>	<u>79,939</u>	<u>82,409</u>
Net assets at end of year	<u>\$ (45,963)</u>	<u>\$ 79,242</u>	<u>\$ 33,279</u>	<u>\$ 79,939</u>

See accompanying notes to financial statements.

**PALAU RED CROSS SOCIETY**  
**(A NONPROFIT ORGANIZATION)**

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

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Changes in net assets	\$ (46,660)	\$ (2,470)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	(824)	77
(Increase) decrease in assets		
Accounts receivable	50	-
Other assets	(1,953)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued taxes	4,772	703
Deferred revenue	<u>63,000</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>18,385</u>	<u>(1,690)</u>
Cash flows from investing activities:		
Acquisition of fixed assets	<u>(13,456)</u>	<u>-</u>
Net cash used in investing activities	<u>(13,456)</u>	<u>-</u>
Net change in cash and cash equivalents	4,929	(1,690)
Cash and cash equivalents, beginning of year	<u>100,386</u>	<u>102,076</u>
Cash and cash equivalents, end of year	<u>\$ 105,315</u>	<u>\$ 100,386</u>

See accompanying notes to financial statements.

**PALAU RED CROSS SOCIETY**  
**(A NONPROFIT ORGANIZATION)**

Schedule of Functional Expenses  
For the Year Ended September 30, 2018  
(with comparative totals for the year ended September 30, 2017)

	Program Services			Supporting Services				
	Community Services	Disaster Services	Total Program Services	Management and General	Membership and Fundraising	Total Supporting Services	2018 Total	2017 Total
Salaries and wages	\$ -	\$ 5,761	\$ 5,761	\$ 105,268	\$ -	\$ 105,268	\$ 111,029	\$ 28,867
Donations	-	50,367	50,367	1,228	-	1,228	51,595	-
Rent	2,045	475	2,520	40,343	-	40,343	42,863	36,000
Supplies and materials	3,441	634	4,075	11,171	77	11,248	15,323	10,085
Employee benefits	-	547	547	10,381	-	10,381	10,928	1,617
Travel services	-	2,720	2,720	6,515	-	6,515	9,235	-
Professional services	3,821	100	3,921	3,660	-	3,660	7,581	-
Advertising	1,048	765	1,813	4,647	-	4,647	6,460	-
Repairs and maintenance	-	2,583	2,583	3,324	-	3,324	5,907	2,300
Utilities	62	-	62	3,473	-	3,473	3,535	-
Communication, training, other operating expenses and services	3,324	2,249	5,573	24,855	187	25,042	30,615	646
Depreciation	-	-	-	824	-	824	824	77
	<u>\$ 13,741</u>	<u>\$ 66,201</u>	<u>\$ 79,942</u>	<u>\$ 215,689</u>	<u>\$ 264</u>	<u>\$ 215,953</u>	<u>\$ 295,895</u>	<u>\$ 79,592</u>

See accompanying notes to financial statements.



**PALAU RED CROSS SOCIETY**  
**(A Nonprofit Organization)**

Notes to Financial Statements  
September 30, 2018 and 2017

(1) Organization

Palau Red Cross Society (PRCS) is not-for-profit humanitarian organization incorporated in the Republic of Palau (ROP) in 1995 and established by the Palau National Congress through House Joint Resolution 5-24-3 on July 31, 1997. PRCS became a recognized member of the International Committee of the Red Cross (ICRC) on September 30, 1997. It was admitted as a member to the International Federation of the Red Cross and Red Crescent Societies (IFRC) on November 20, 1997, joining a membership of 191 National Red Cross and Red Crescent Societies around the world.

The vision of PRCS is to be the leading humanitarian organization in Palau that is inclusive, sustainable, effective, and meets the needs of the community. Its mission is to promote a safe, healthy, and resilient Palauan community. This is accomplished through services and programs that are based on the seven Fundamental Principles of the Red Cross Movement: Humanity, Impartiality, Neutrality, Independence, Voluntary service, Unity, and Universality. The services include: First-Aid and Basic Life Support Training; Disaster Management (Disaster Preparedness and Response, Single-Incident Emergencies); Health (Voluntary Non-Remunerated Blood Donation); and Social Care (Services to Armed Forces, Elderlies, Home-bound patients, People with Disabilities and other vulnerable populations).

PRCS is a chartered and registered non-profit organization in the ROP and is granted qualification for specific tax exemptions by the Bureau of Revenue and Taxation pursuant to Title 40 of the Palau National Code Chapters 10 & 18.

(2) Summary of Significant Accounting Policies

*Financial Statements Presentation*

The financial statements of PRCS are prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

*Reporting Entity*

Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, 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 two classes of net assets: restricted and unrestricted.

**PALAU RED CROSS SOCIETY**  
**(A Nonprofit Organization)**

Notes to Financial Statements  
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, continued

*Reporting Entity, continued*

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

- Net assets without donor restriction- Net assets that are not subject to donor-imposed stipulations or whose restrictions are met in the year received.
- Net assets with donor restrictions- Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Society and/or the passage of time. When a restriction expires or is satisfied, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Cash*

For purposes of the statements of financial position and cash flows, the Society considers cash to be cash on hand and cash in checking and savings accounts. As of September 30, 2018 and 2017 the carrying amount of the Society's cash, both unrestricted and restricted, was \$105,315 and \$100,386 respectively, and the corresponding bank balance was \$105,315 and \$100,386, respectively. These are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. From these deposits \$105,315 and \$100,386 for 2018 and 2017 respectively, were subject to coverage by FDIC. There were no uninsured bank balance as of September 30, 2018 and 2017. The Society does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized and are subject to custodial credit risk.

*Inventory*

Inventory consists of supplies purchased for use in program and supporting services and goods for resale are valued at the lower of cost or market. Cost is determined using the first-in, first-out method.

**PALAU RED CROSS SOCIETY**  
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Notes to Financial Statements  
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, continued

*Property and Equipment*

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance and repairs are charged to expense as incurred. Donated assets are capitalized at the estimated fair market value at time of receipt. Certain donated services are capitalized as improvements when those services enhance the value of assets.

Property and equipment purchased or acquired with original cost of \$1,000 or more and/or has an economic useful life that extends beyond 12 months are reported at historical cost or estimated historical cost.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. In absence of donor-imposed restrictions on the use of the assets, gifts of long-lived assets are reported as unrestricted support.

Long-lived assets held and used by PRCS are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the events that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

*Donated Services and Materials*

Amounts have been reported in the financial statements for voluntary donation of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. Donated services and materials are recorded at the fair value of the gift.

*Contributions*

The Society adopted FASB ASC Section 958-605-25, "Not-for-Profit Entities – Revenue Recognition". Contributions received are recorded as net assets without restriction and net assets with restriction depending on the existence and/or nature of any donor restrictions in the period received. Conditional contributions are recorded as support in the period the condition is met. Restricted contributions are reported as net assets with donor restriction and are then reclassified to net assets without donor restriction upon satisfaction of the time or purpose restrictions.

**PALAU RED CROSS SOCIETY**  
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Notes to Financial Statements  
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, continued

*Contributions, continued*

All contributions are considered to be available for the general programs of PRCS unless specifically restricted by the donor. PRCS reports 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, net assets with donor restriction are reclassified to net assets without donor restriction and reported in statement of activities as net assets released from restrictions. Donor-restricted contributions are booked in the net assets with donor restriction for restrictions expiring during the current fiscal year, and then reclassified to the net assets without donor restriction.

PRCS received in-kind contribution in the amount of \$36,000 representing the fair market value of rent. PRCS is a tenant of a certain segment of the former Olbiil Era Kelulau (OEK) building located on the 1<sup>st</sup> floor. PRCS was granted by the Koror State Public Lands Authority (KDPLA) the right to use and occupy a portion of the former OEK building free of charge, to include utility services.

*Income Taxes*

PRCS is a nonprofit corporation that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from Republic of Palau Gross Revenue Tax. The ROP does not impose corporate income tax. Therefore, no income tax expense, income tax assets, or income tax liabilities have been included in the accompanying financial statements.

*Program Activities*

PRCS' activities include service to Chapters, armed forces emergency services, disaster services, health and safety services, community services, international services, membership/fundraising, and management and general.

*Schedule of Functional Expenses*

The costs of providing various programs and other activities have been summarized in the accompanying Schedule of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

**PALAU RED CROSS SOCIETY**  
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Notes to Financial Statements  
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, continued

*Use of Estimates*

The preparation of financial statements in accordance with generally accepted accounting principle requires management to make estimates and assumptions that affect the reported amounts of 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.

*Revenues*

Revenues are derived from monetary contributions, donations, in-kind contributions, grants and any income from special or fundraising events.

*Deferred Revenues*

The Organization reports deferred revenues on its Statement of Financial Position. Deferred revenues arise when resources arrive before the Organization has legal claim for them, such as when grant funds are received before the qualifying expenditure is made. In the subsequent period, when the Organization has legal claim to the resources, the liability for deferred revenue is removed from the Statement of Financial Position, and the revenue is recognized.

*Compensated absences*

Employees of the Organization are entitled to paid vacation and paid sick days depending on job classification, length of service, and other factors. The Organization's policy is to recognize the costs of compensated absences when actually paid to employees. The balance of the unused compensated absences was \$5,148 at September 30, 2018.

**PALAU RED CROSS SOCIETY**  
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Notes to Financial Statements  
September 30, 2018 and 2017

(3) Property and Equipment

A summary of property and equipment at September 30, 2018 and 2017 is as follows:

	<u>Estimated Useful Lives</u>	<u>2018</u>	<u>2017</u>
Office equipment	2-8 years	\$ 9,042	\$ 2,094
Vehicle	5 years	<u>8,155</u>	<u>-</u>
Total		17,197	2,094
Accumulated depreciation		<u>(901)</u>	<u>(77)</u>
		<u>\$ 16,296</u>	<u>\$ 2,017</u>

Depreciation expense for the year ended September 30, 2018 and 2017 is \$824 and \$77 respectively.

(4) Grant Revenue

The following information summarizes the Society's grant and contract activities during the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
India-Palau Small Grants Program	\$ 9,960	\$ -
The Empress Shoken Fund	<u>29,970</u>	<u>-</u>
Total	<u>\$ 39,930</u>	<u>\$ -</u>

The Organization was allotted to \$4,500 and \$0 of indirect costs for the years ended September 30, 2018 and 2017, respectively.

**PALAU RED CROSS SOCIETY**  
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Notes to Financial Statements  
September 30, 2018 and 2017

(5) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at September 31, 2018 and 2017:

<u>Subject to expenditure for specified purpose:</u>	<u>2018</u>	<u>2017</u>
Palau caregiver certificate program: General	\$ 25,470	\$ -
Japan relief donation	50,753	-
Disaster relief	3,019	-
Total	<u>\$ 79,242</u>	<u>\$ -</u>

(6) Schedule of Functional Expenses

The costs of providing various programs and other activities have been summarized in the Schedule of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

(7) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash. The Company's cash is placed with financial institutions that, at times, may exceed federally insured limits of \$100,000. At September 30, 2018 and 2017, cash amounts are within the insured limits.

(8) Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net assets.

(9) Subsequent Events

The Organization has evaluated subsequent events through May 02, 2019, the date which the financial statements were available to be issued. No events have occurred which would have a material effect on the financial statements of the Company as of that date.