

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

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

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Years Ended September 30, 2006 and 2005

# PALAU COMMUNITY COLLEGE

## COMPREHENSIVE ANNUAL FINANCIAL REPORT Fiscal Year Ended September 30, 2006

Prepared by:  
Administration & Finance Department

Jay Olegeriil  
Vice President for Administration & Finance

Lorenza Joseph  
Account Supervisor

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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September 30, 2006 and 2005

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PALAU COMMUNITY COLLEGE  
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COMPREHENSIVE ANNUAL FINANCIAL REPORT

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PALAU  
COMMUNITY  
COLLEGE

**PALAU COMMUNITY COLLEGE**  
**(A Component Unit of the Republic of Palau)**

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**INTRODUCTORY SECTION**

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**Year Ended September 30, 2006**

2006  
Comprehensive Annual  
Financial Report

Fiscal year ended September 30, 2006  
P.O. Box 9  
Koror, Palau 96940

# Introductory Section

February 15, 2007

Ladies and Gentlemen of the Board:

I am pleased to submit to you and the leadership of the Republic of Palau the Comprehensive Annual Financial Report for fiscal year 2006. This document presents the record of Palau Community College's financial operations for the year ended September 30, 2006.

As detailed in the financial statements within the report, the College continues to manage its funds with diligence and prudent practices. As a result, the College has once again been able to end fiscal year 2006 under budget.

The continued high student enrollment has allowed the College to complete several projects to improve our facilities including renovation and construction of additional classrooms, construction of office space for security officers, walkways and ramps around campus. The College continues to address the issue of campus security by beginning the work that will eventually establish an access road from Ngel to the Palau National Track. We have also begun the construction of retaining wall from the road behind the Palau National Track toward Ngel as well.

I am grateful to the Board of Trustees who governs us, the students who enroll with us and especially the Olbiil Era Kelulau-Palau National Congress (OEK) for providing the College with much needed financial support every year. As ever, I am proud of and thankful for all those who work with unflagging dedication to make Palau Community College a learning place for all Palauans and citizens from our surrounding countries.

Respectfully,

/s/ Patrick U. Tellei, *Edd*

Patrick U. Tellei, *Edd*  
President

During the fiscal year ending September 30, 2006, the College received and administered several grants from the U.S. Federal Government and these include Student Aids (Pell Grant), Student Support Service (Project Beacon), Upward Bound, Upward Bound Math & Science (UBMS), Child Care Grant, Library Grant, Talent Search Program and Area Health Education Center (AHEC). These programs were audited and their financial reports are contained in the financial section of this report.

The College also houses several programs that provide services to the general public and the college community. These programs include: Small Business Development Center; Palau Wind Orchestra; Workforce Investment Act (WIA); Child Care; Community Advocacy Program; Health Clinic; and the Palau Red Cross Society.

## **MAJOR INITIATIVES**

Following a comprehensive institutional planning process, the Board of Trustees adopted a Ten-Year Master Plan with eight strategic directions designed to shape departmental, programmatic, and individual action agendas for the future of the College. These strategic directions are briefly discussed:

### **Funding:**

This direction seeks to secure funding to support existing and new programs. We aim at raising a \$10 million endowment fund for the College to get closer to sustaining itself.

### **Institutional Culture:**

We believe in a culture that promotes quality service and continuous learning for staff and students alike.

### **New/Current Programs:**

Our programs have to be able to meet our student needs and the needs of communities we serve. We have to be flexible with the ability to revise or develop programs in response to economic and social changes.

### **Student Retention:**

The College needs to have programs and mechanisms in place to retain students making sure they do finish their education.

### **Facilities:**

We seek to have the necessary facilities and infrastructure to support our programs and services.

### **Technology:**

We are committed to providing the basic technology to allow students and staff access to global information.

- Promoting Leadership
- Integrity and Loyalty
- Community Ownership
- Continuous Improvement
- Creativity and Innovation
- People and Respect for Others

**We are a community of learners:**

- We provide education and training for and throughout a lifetime.
- We seek to improve and expand the services we offer in support of the people in the communities we serve.
- We promote a caring community of staff and faculty member, students, administrators, and trustees who, in keeping with our values, work together to fulfill our mission.

**We are a changing community:**

- We recognize that change is inevitable and that education must be for the future.
- We respond to change informed by our values and our responsibility to our students and our communities.
- We challenge our students to be capable citizens, guided by knowledge and ethical principles, which will shape the future.

**GENERAL**

The College maintains its accounts and prepares its financial statement in accordance with accounting principles generally accepted in the United States of America (GAAP) as set forth by Governmental and Financial Accounting Standards Boards (GASB). The financial records of the College are maintained on the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal obligation to pay. The notes to the financial statements expand and explain the financial statements and the accounting principles applied. The independent public accountants, J. Scott Magliari & Company, have audited the College's financial statements. Their report is included as part of the financial section of this report.

February 15, 2007

To : President Tellei  
Members of the Board of Trustees

The Comprehensive Annual Financial Report of Palau Community College, for the fiscal year ended September 30, 2006, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the College. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operation of the College. All disclosures necessary to enable the reader to gain an understanding of the College's financial activities in relation to its mission have been included.

### **FINANCIAL STATEMENT**

This letter of transmittal should be read in conjunction with the Management's Discussion and Analysis (pages 3-7), which focuses on current activities, accounting changes, and currently known facts.

The College's financial statements are prepared in accordance with GASB 34 and the government of the Republic of Palau. The format and purpose of these financial statements are addressed in the notes to the financial statements (note 1). We believe this presentation provides better information to the user of the Comprehensive Annual Financial Report (CAFR) of Palau Community College.

### **VISION, MISSION AND VALUES**

The College's mission is to provide an accessible public educational institution to help meet the technical, academic, cultural, social and economic needs of students and communities by promoting learning opportunities and developing excellence.

#### **We are the community's college and we believe in:**

- Team Work
- Quality Service
- Open Communication
- Managing with Goals

Public Relations:

We seek to establish a good relationship with our communities and constituents in promoting the College.

Learning Resources:

We want to make sure resources and learning materials are available to our students and staff.

**FINANCIAL INFORMATION**

Internal Control. Management of the College is responsible for establishing and maintaining an internal control structure designed to protect the assets of the College, prevents loss from theft or misuse and to provide that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls. The College maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Olbiil Era Kelulau (Palau National Congress) and the College Board of Trustees.

Activities of the following fund groups and individual funds are included in the annual budget.

<u>Fund Group</u>	<u>Fund</u>
Current Unrestricted	Education Operations and Maintenance of Plant Auxiliary Enterprises
Current Restricted	Restricted Purposes U.S. Federal Grants Small Grants

The level of budgetary control (that is, the level at which expenditures cannot exceed the appropriated amount) is established for each individual fund. The College does not practice encumbered accounting and therefore, payments of expenses are made within a 30-day period after expenses are incurred. This process has allowed the College to close its books and begin a new fiscal year with little difficulties.

Property Taxes

As a Public Corporation created by Republic of Palau Public Law 4-2, the College is exempted from property taxes of the Republic of Palau.

## PROSPECTS FOR THE FUTURE

The College's financial outlook for the future continues is positive, albeit with some caution. The College's student and adult continuing education enrollments fluctuate but have shown gains in the last few years. Increase in student enrollment would mean increase in revenue for the College. The current facilities and structures can accommodate up to about 1,000 students. While there has been the completion of additional classrooms, the College will have to plan and prepare for continued increase in enrollment in terms of classroom facilities.

The following table illustrates enrollments over the last seven years.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Enrollment</u>							
Full Time Total	1,590	1,544	1,788	1,884	1,634	1,710	1,571
Continuing Education & other trainings	<u>1,943</u>	<u>3,284</u>	<u>1,658</u>	<u>863</u>	<u>1,877</u>	<u>3,089</u>	<u>3,039</u>
<b>*Total</b>	<b>3,533</b>	<b>4,828</b>	<b>3,446</b>	<b>2,747</b>	<b>3,511</b>	<b>4,799</b>	<b>4,610</b>

\*Total Enrollment, Continuing Education & Specialized training enrollment including CRE, OMIP

## PCC ENDOWMENT FUND MANAGEMENT

The fiduciary responsibility for College investments is entrusted to the College Board of Trustees. In keeping with this responsibility, the Board invests college's endowment funds in most prudent, conservative and secured manner and in accordance with the guidelines detailed in the College Investment Policy. The Board of Trustees approves designation of money managers of College funds.

In the fiscal year ending September 30, 2006, the College's investments from current funds generated \$371,967 in investment income. The College invests funds in Money Market funds managed by Salomon Smith Barney.

## RISK MANAGEMENT

In fiscal year 2006, the College paid approximately \$6,781 for Worker's Compensation and \$2,433 for General Liabilities insurance coverage as protection against risks. The College also paid \$15,130 for automobile insurance to provide coverage in case of accidents involving college vehicles.

The primary purpose of insurance coverage is to provide some protection to the College's properties and staff in case of accidents, injuries and other catastrophic events. The College is self-insured with insurance coverage provided by local underwriter.

## **OTHER INFORMATION**

*Community Service.* The College continues to be actively involved in community functions and activities. Our students and staff were most active and deeply involved in activities such as the Annual Mechesil Belau Conference, National Earth Day Activities, among others. The College has been a host to many community meetings, seminars and conferences.

Many College employees are active members of national committees, boards and working groups including Palau National Scholarship, PPUC Board of Directors and National Development Bank of Palau. The involvement of the College in community functions is further proof of our commitment to becoming a true community college.

*Independent Audit.* The Republic of Palau and U.S. Federal statutes require an annual audit by independent certified public accountants. The College selected the accounting firm of J. Scott Magliari & Company. The auditor's report on the financial statements and schedules are included in the financial section of this report.

## **ACKNOWLEDGEMENT**

The timely preparation of the comprehensive annual financial report was made possible by the dedicated service of the entire staff of the Business Office. Each member of the Office has our sincere appreciation for the contributions made in the preparation of this report.

Respectfully submitted,

**/s/ Jay Olegeriil**

Jay Olegeriil  
Vice President of Administration & Finance

# PALAU COMMUNITY COLLEGE

## PRINCIPAL OFFICIALS

Year ended September 30, 2006

### BOARD OF TRUSTEES

	<u>Position</u>
Mrs. Bilung Gloria G. Salii	Chairperson
Mr. Masa-Aki N. Emesiochl	Vice Chairman
Mrs. Valeria Toribiong	Secretary/Treasurer
Dr. Emais Robert	Trustee
Mr. Buk Emil Ramarui	Trustee
Mr. Shane Salvador	Student Trustee

### OFFICERS OF THE COLLEGE

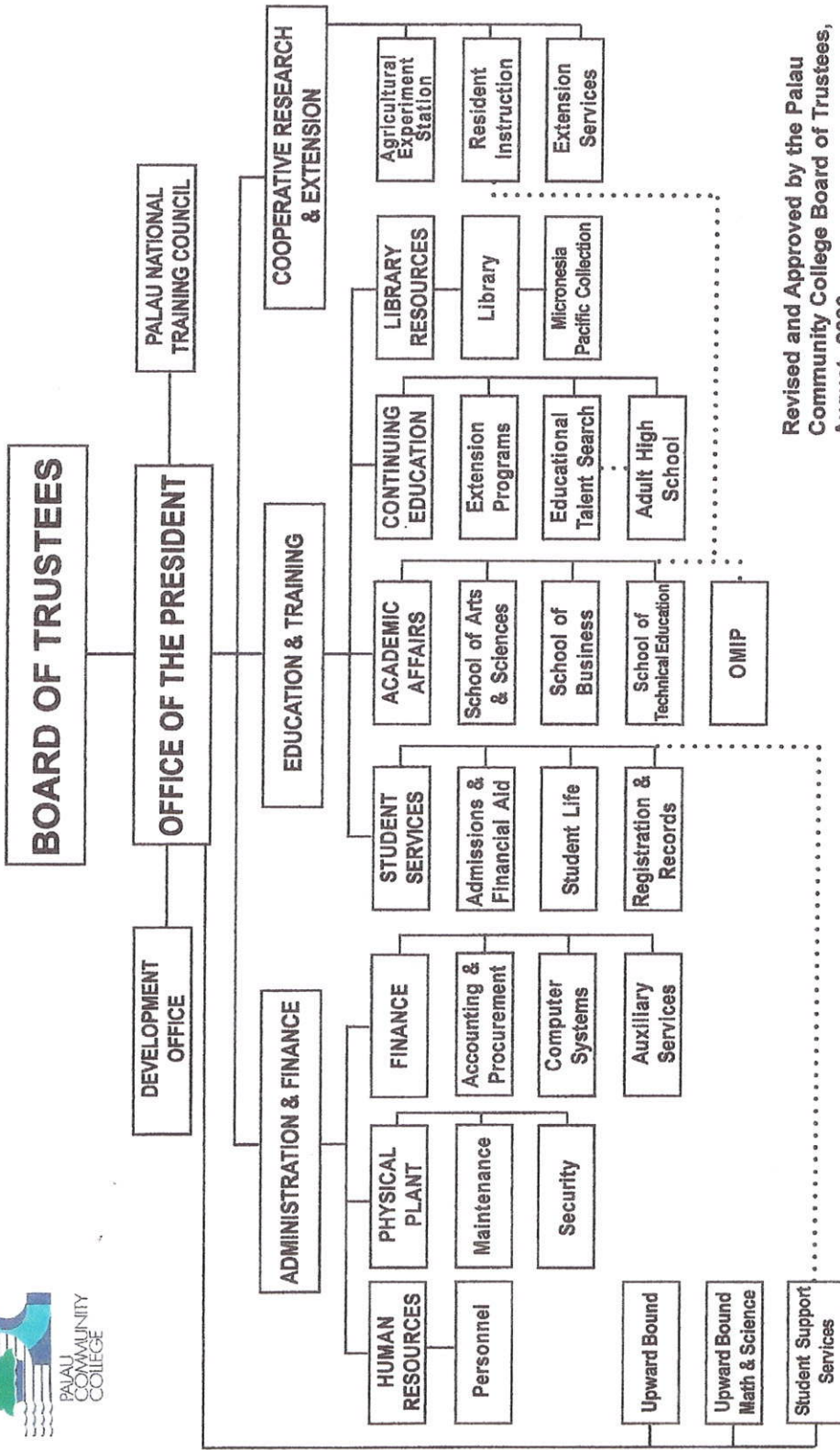
Dr. Patrick U. Tellei, Ed.D.	President
Mr. Jay Olegeriil	Vice President for Administration and Finance
Mr. Thomas Taro	Vice President for Cooperative Research & Extension
Mrs. Alvina Timarong	Dean of Academic Affairs
Mr. William O. Wally	Dean of Continuing Education
Mrs. Marencia Edwards	Dean of Students
Mr. Armstrong Debelbot	Director of Development
Ms. Victoria Maui	Faculty Senate President
Mr. Ramon Adelbai	SBA President

### OFFICIALS ISSUING REPORT

Mr. Jay Olegeriil	Vice President for Administration and Finance
Ms. Lorenza Joseph	Accounting Supervisor

### DIVISION ISSUING REPORT

Finance



Revised and Approved by the Palau  
Community College Board of Trustees,  
August, 2006

*Bilung Gloria G. Sali*  
Bilung Gloria G. Sali  
Chairperson of the Board

Adopted August 1994  
Revised August 2006

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

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FINANCIAL SECTION

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Years Ended September 30, 2006 and 2005

J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

Saipan Office:  
PMB 297 PPP Box 10000  
Saipan, MP 96950  
Tel. No. (670) 233-1837  
Fax No. (670) 233-8214

Guam Office:  
P.O. Box 12734  
Tamuning, Guam 96931  
Tel. No. (671) 472-2680  
Fax No. (671) 472-2686

Palau Office:  
P.O. Box 1266, Koror, PW 96940  
Tel. No. (680) 488-8615  
Fax No. (680) 488-8616

INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Palau Community College  
Koror, Republic of Palau

I have audited the accompanying basic financial statements of the Palau Community College (PCC), a component unit of the Republic of Palau (ROP), as of and for the years ended September 30, 2006 and 2005. These financial statements are the responsibility of PCC's management. My responsibility is to express an opinion on these basic financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits 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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of PCC as of September 30, 2006 and 2005, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 to 7 and page 12, respectively, are not required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. These supplementary information are the responsibility of the management of PCC. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of these supplemental information. However, I did not audit the information and express no opinion on it.

The introductory section and statistical section have not been subjected to the auditing procedures applied to the basic financial statements and, accordingly, we express no opinion on them.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on page 39 is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This supplementary information is the responsibility of the management of PCC. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 25, 2007 on my consideration of PCC's internal control over financial reporting and my tests of compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of my 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 read in conjunction with this report in considering the results of my audits.



Koror, Republic of Palau  
January 25, 2007

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

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FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

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September 30, 2006 and 2005



PALAU  
COMMUNITY  
COLLEGE

**PALAU COMMUNITY COLLEGE**  
**(A Component Unit of the Republic of Palau)**

**Management's Discussion and Analysis**  
**September 30, 2006**

**Management's Discussion and Analysis**

This section of Palau Community College's Comprehensive Annual Report presents management's discussion and analysis of the College's financial activity during the fiscal year ended September 30, 2006. Since this management's discussion and analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the transmittal letter (pages IV-IX), College's financial statements (pages 8-12) and footnotes (pages 13-26). Responsibility for the completeness and fairness of this information rests with the College.

**Using This Annual Report**

The College's financial statements (see pages 8-12) are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources (short-term spendable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities, which are supported mainly by appropriations from Olbiil Era Kelulau-Palau National Congress (OEK) and by student tuition and other revenues. This approach is intended to summarize and simplify the user's analysis of cost of various College services to students and the public.

**Financial Analysis of the College as a Whole**  
**Net Assets**  
**As of September 30, 2006, 2005, and 2004**

	2006	2005	2004
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 881,473	\$ 978,065	\$ 714,240
Accounts receivable, net	2,568,987	1,571,131	1,236,178
Appropriations receivable	230,288	457,767	1,068,484
Inventory	190,951	267,565	264,515
Prepaid expenses	-	3,555	19,521
<b>Total current assets</b>	<b>3,871,699</b>	<b>3,278,083</b>	<b>3,302,938</b>
Noncurrent assets			
Restricted cash	538,273	446,001	7,986
Endowment investments	1,309,670	1,029,976	500,785
Capital assets, net of accumulated depreciation	1,545,818	1,830,654	2,217,515
<b>Total noncurrent assets</b>	<b>3,393,761</b>	<b>3,306,631</b>	<b>2,726,286</b>
<b>TOTAL ASSETS</b>	<b>\$ 7,265,460</b>	<b>\$ 6,584,714</b>	<b>\$ 6,029,224</b>

**PALAU COMMUNITY COLLEGE**  
**(A Component Unit of the Republic of Palau)**

**Management's Discussion and Analysis**  
**September 30, 2006**

**Financial Analysis of the College as a Whole**  
**Net Assets**  
**As of September 30, 2006, 2005, and 2004**

	2006	2005	2004
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 788,920	\$ 618,785	\$ 499,814
Accrued liabilities	261,924	239,924	244,834
Deferred tuition and fees revenue	273,721	185,934	794,041
Other deferred revenue	184,701	135,508	232,222
<b>TOTAL LIABILITIES</b>	<b>1,509,266</b>	<b>1,180,151</b>	<b>1,770,911</b>
<b>NET ASSETS</b>			
Invested in capital assets	1,545,818	1,830,654	2,217,515
Restricted	1,770,933	1,478,652	510,744
Unrestricted	2,439,443	2,095,257	1,530,054
<b>TOTAL NET ASSETS</b>	<b>\$ 5,756,194</b>	<b>\$ 5,404,563</b>	<b>\$ 4,258,313</b>

This schedule is prepared from the College's Statements of Net Assets, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Total net assets in FY 2006 increased to \$5.75 million from \$5.4 million in fiscal year 2005. Endowment investments also increased in FY2006 to \$1.3 million from \$1 million in fiscal year 2005.

Current liabilities increased in fiscal year 2006 as compared to the previous fiscal year due to increase in deferred tuition fees and revenues and accounts payable.

With continued diligent and prudent fund management, the College was able to end fiscal year 2006 with an increase in fund balance of \$351,631.

**PALAU COMMUNITY COLLEGE**  
**(A Component Unit of the Republic of Palau)**

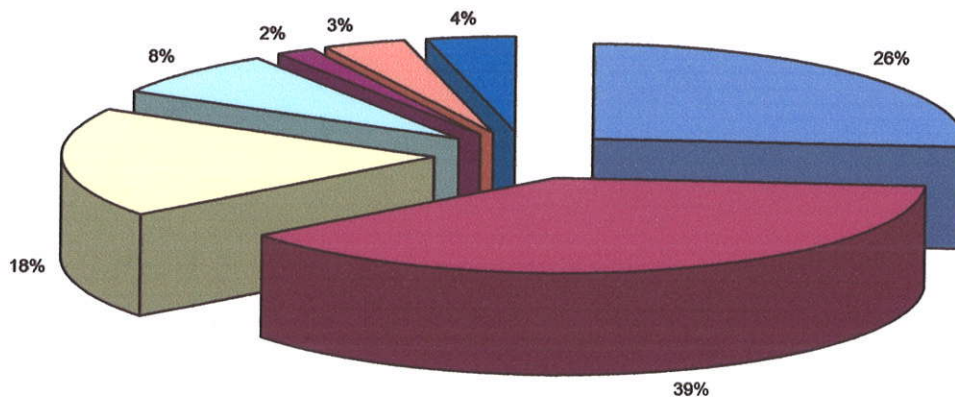
**Management's Discussion and Analysis**  
**September 30, 2006**

**Operating Revenues for the Year Ended**  
**September 30, 2006**

Revenues	Unrestricted	Restricted	Total
Republic of Palau Appropriations	\$ 2,385,000	\$ -	\$ 2,385,000
U.S. Federal Grants	-	3,595,841	3,595,841
Tuition and fees	1,623,248	80,520	1,703,768
Auxiliary Enterprise Sale and Charges	743,696	-	743,696
Other Grants	915	149,286	150,201
Other	73,803	240,477	314,280
Investment Income	-	371,967	371,967
<b>Total Current Income</b>	<b>\$ 4,826,662</b>	<b>\$ 4,438,091</b>	<b>\$ 9,264,753</b>

The schedule indicates total revenues realized by the College in fiscal year 2006 of \$9.26 million. The largest portion of revenues (\$3.6 million) was contributed by the U.S. Federal Government through grants. Approximately \$2.4 million was contributed by the Olbiil Era Kelulau (Palau National Congress). The following chart exhibits the breakdown of revenues for Palau Community College in fiscal year 2006:

**Operating Revenues Breakdown**



■ Republic of Palau Contributions ■ U.S. Federal Grants □ Tuition and fees □ Auxiliary Service Income ■ Other Grants ■ Other ■ Investment Income

**PALAU COMMUNITY COLLEGE**  
**(A Component Unit of the Republic of Palau)**

**Management's Discussion and Analysis**  
**September 30, 2006**

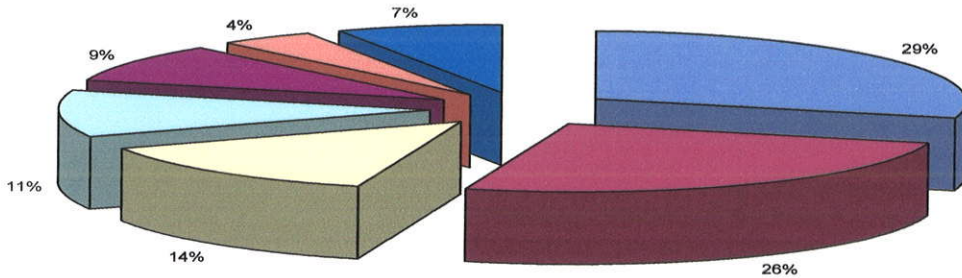
**Operating Expenses**  
**For The Year Ended September 30, 2006**

	Unrestricted	Restricted	Total
<b>Expenditures and mandatory transfers</b>			
<b>Educational and general</b>			
Student aid	\$ -	\$ 2,385,178	\$ 2,385,178
Instructional	1,126,148	973,446	2,099,594
Administration	846,416	282,845	1,129,261
Student services	499,961	418,646	918,607
Operations and maintenance	750,761	-	750,761
Academic support	334,215	24,570	358,785
Depreciation	-	583,634	583,634
<b>Total educational and general expenditures</b>	<b>3,557,501</b>	<b>4,668,319</b>	<b>8,225,820</b>
<b>Mandatory transfers</b>			
Auxiliary enterprises expenditures	687,302	-	687,302
<b>Total expenditures and mandatory transfers</b>	<b>4,244,803</b>	<b>4,668,319</b>	<b>8,913,122</b>
<b>Net increase (decrease) in fund balance</b>	<b>\$ 581,859</b>	<b>\$ (230,228)</b>	<b>\$ 351,631</b>

The above schedule shows the total operating expenditures of \$8.9 million in fiscal year 2006. As indicated under "Total" column, the College ended fiscal year 2006 with a surplus of \$351,631.

The two (2) biggest expenditures in fiscal year 2006 were for student aid (students' Pell-Grant refunds & Work-Study) and instructional activities.

**Expenses Breakdown**  
**For The Year Ended September 30, 2006**



■ Student aid ■ Instructional □ Administration □ Student services ■ Operations and maintenance ■ Academic support ■ Depreciation

**PALAU COMMUNITY COLLEGE**  
**(A Component Unit of the Republic of Palau)**

**Management's Discussion and Analysis**  
**September 30, 2006**

Requests for Information

This report is intended to provide a summary of the financial condition of the Palau Community College. Questions or requests for additional information should be addressed to:

Jay Olegeriil  
Vice President for Administration & Finance  
PO Box 9  
Koror, Palau 96940

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

STATEMENTS OF NET ASSETS  
September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 881,473	\$ 978,065
Accounts receivable, net	2,568,987	1,571,131
Appropriations receivable	230,288	457,767
Inventory	190,951	267,565
Prepaid expenses	<u>-</u>	<u>3,555</u>
Total current assets	<u>3,871,699</u>	<u>3,278,083</u>
Noncurrent assets		
Restricted cash	538,273	446,001
Endowment investments	1,309,670	1,029,976
Capital assets, net of accumulated depreciation	<u>1,545,818</u>	<u>1,830,654</u>
Total noncurrent assets	<u>3,393,761</u>	<u>3,306,631</u>
Total Assets	<u>\$ 7,265,460</u>	<u>\$ 6,584,714</u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities		
Accounts payable	\$ 788,920	\$ 618,785
Accrued liabilities	261,924	239,924
Deferred tuition and fees revenue	273,721	185,934
Other deferred revenue	<u>184,701</u>	<u>135,508</u>
Total current liabilities	<u>1,509,266</u>	<u>1,180,151</u>
Total liabilities	<u>1,509,266</u>	<u>1,180,151</u>
Net Assets:		
Invested in capital assets	1,545,818	1,830,654
Restricted		
Expendable	502,206	407,276
Nonexpendable	1,268,727	1,071,376
Unrestricted	<u>2,439,443</u>	<u>2,095,257</u>
Total net assets	<u>5,756,194</u>	<u>5,404,563</u>
Total Liabilities and Net Assets	<u>\$ 7,265,460</u>	<u>\$ 6,584,714</u>
Commitment and Contingencies		

See accompanying notes to financial statements.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Tuition and fees (Net of Scholarship Discounts and Allowances of \$1,085,006 and \$1,146,602, respectively)	\$ 1,703,768	\$ 1,703,396
Federal grants	3,595,841	3,281,304
Auxiliary enterprise sales and charges (Net of Scholarship Discounts and Allowances of \$290,118 and \$441,185, respectively)	743,696	660,850
Other grants	390,678	819,287
Other operating revenues	<u>73,803</u>	<u>86,795</u>
Total operating revenues	<u>6,507,786</u>	<u>6,551,632</u>
Operating expenses		
Education and general:		
Student aid	2,268,970	2,090,121
Instruction	2,069,384	2,118,718
Administration	1,048,741	974,203
Student services	929,488	850,391
Operations and maintenance	912,483	641,418
Academic support	373,039	336,076
Special project	-	395,628
Auxiliary enterprises	727,383	533,816
Depreciation	<u>583,634</u>	<u>573,556</u>
Total operating expenses	<u>8,913,122</u>	<u>8,513,927</u>
Operating loss	<u>(2,405,336)</u>	<u>(1,962,295)</u>
Non-operating revenues		
Republic of Palau appropriations	2,385,000	2,385,000
Investment income earned	<u>371,967</u>	<u>723,545</u>
Total non operating revenues, net	<u>2,756,967</u>	<u>3,108,545</u>
Increase in net assets	351,631	1,146,250
Net assets beginning at year	<u>5,404,563</u>	<u>4,258,313</u>
Net assets end at year	<u>\$ 5,756,194</u>	<u>\$ 5,404,563</u>

See accompanying notes to financial statements.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

STATEMENTS OF CASH FLOWS  
For the Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from students for tuition and fees	\$ 1,791,555	\$ 1,095,289
Cash received from auxiliary activities	743,696	660,850
Cash received from federal grants	3,052,048	3,305,395
Cash received from other grants	287,088	1,061,045
Cash paid to suppliers and employees	<u>(8,057,182)</u>	<u>(7,813,398)</u>
 Net cash used in operating activities	 <u>(2,182,795)</u>	 <u>(1,690,819)</u>
Cash flows from noncapital financing activities:		
Appropriations received from the Republic of Palau	<u>2,385,000</u>	<u>2,385,000</u>
 Net cash provided by noncapital financing activities	 <u>2,385,000</u>	 <u>2,385,000</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(298,797)</u>	<u>(186,695)</u>
 Net cash used in capital and related financing activities	 <u>(298,797)</u>	 <u>(186,695)</u>
Cash flows from investing activities:		
Investment income received from investments	371,967	723,544
Library fund investments	(92,078)	(407,276)
Endowment fund investments	<u>(279,889)</u>	<u>(559,929)</u>
 Net cash used in investing activities	 <u>-</u>	 <u>(243,661)</u>
 Net increase (decrease) in cash	 (96,592)	 263,825
Cash and cash equivalents, beginning of year	<u>978,065</u>	<u>714,240</u>
Cash and cash equivalents, end of year	<u>\$ 881,473</u>	<u>\$ 978,065</u>

See accompanying notes to financial statements.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

STATEMENTS OF CASH FLOWS  
For the Years Ended September 30, 2006 and 2005

	2006	2005
Reconciliation of operating income (loss) to net cash provided by (used) in operating activities:		
Operating loss	\$ (2,405,336)	\$ (1,962,295)
Adjustments to reconcile operating income (loss) to net cash provided by (used) in operating activities:		
Depreciation	583,634	573,556
Changes in net assets		
Accounts receivable, net	(997,856)	618,531
Appropriations receivable	227,479	(342,767)
Prepaid expenses	3,555	15,966
Inventory	76,614	(3,050)
Accounts payable	170,135	118,971
Accrued liabilities	22,000	(4,910)
Deferred tuition and fees revenue	87,787	(608,107)
Other deferred revenue	49,193	(96,714)
Net cash used in operating activities	\$ (2,182,795)	\$ (1,690,819)

See accompanying notes to financial statements.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL  
For the Year Ended September 30, 2006

	Budgeted Amounts	Actual	Favorable	
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
			(Unfavorable)	
			<u>Variance</u>	
Operating revenues	<u>\$ 4,427,075</u>	<u>\$ 4,427,075</u>	<u>\$ 6,507,786</u>	<u>\$ 2,080,711</u>
Operating expenses:				
Supplies, materials, other operating expenses and services	2,796,631	2,796,631	4,611,140	(1,814,509)
Salaries	2,871,083	2,871,083	3,024,950	(153,867)
Depreciation	583,634	583,634	583,634	-
Employee benefits	271,127	271,127	437,230	(166,103)
Utilities	<u>289,600</u>	<u>289,600</u>	<u>256,168</u>	<u>33,432</u>
Total operating expenses	<u>6,812,075</u>	<u>6,812,075</u>	<u>8,913,122</u>	<u>(2,101,047)</u>
Operating loss	<u>(2,385,000)</u>	<u>(2,385,000)</u>	<u>(2,405,336)</u>	<u>(20,336)</u>
Non-operating revenues				
Republic of Palau appropriations	2,385,000	2,385,000	2,385,000	-
Investment income earned	<u>-</u>	<u>-</u>	<u>371,967</u>	<u>371,967</u>
Total non operating revenues, net	<u>2,385,000</u>	<u>2,385,000</u>	<u>2,756,967</u>	<u>371,967</u>
Increase in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 351,631</u>	<u>\$ 351,631</u>

See accompanying notes to financial statements.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies

Reporting Entity

Palau Community College (PCC) is an institution of higher education created by Republic of Palau Law (RPPL) 4-2 and is considered to be a component unit of Republic of Palau. Accordingly, PCC is included in the Republic of Palau's financial statements as a discrete component unit. Transactions with the Republic of Palau relate primarily to appropriations for operations and capital improvements and grants from various federal agencies.

Basis of Presentation

The financial statements of PCC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), including GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis for Colleges and Universities*, issued in 1999, and as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus an Amendment of GASB Statements No. 21 and No. 34, and No. 38*, Certain Financial Statement Note Disclosures.

The basic financial statements consist of the following:

The Statement of Net Assets reflects the financial position of PCC at September 30, 2006. It shows the various assets owned or controlled by PCC, related liabilities and other obligations, and the various categories of net assets. Net assets is defined as total assets less total liabilities, and as such, represents the institutional equity or ownership in the total assets of PCC.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and other changes for the year ended September 30, 2006. It shows the various revenues and expenses, both operating and non-operating, reconciling the beginning net assets balance to the ending net assets balance, shown on the Statement of Net Assets described above.

The Statement of Cash Flows reflects the inflows and outflows of cash and cash equivalents for the year ended September 30, 2006. It indicates the various cash activities by type, reconciling the beginning cash and cash equivalents balance to the ending cash and cash equivalents balance, shown on the Statement of Net Assets described above. In addition, this statement reconciles cash flows used for operating activities to operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets described above.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

Measurement Focus and Basis of Accounting

For financial reporting purposes, PCC is considered a special-purpose government engaged only in business-type activities. Under this model, PCC's financial statements provide a comprehensive look at its financial activities. Accordingly, PCC's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flow. Revenue from grants, government appropriations, and other contributions is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted and matching requirements, in which the resources are provided to PCC on a reimbursement basis.

In accordance with GASB Statement No. 20, PCC is required to follow all applicable GASB pronouncements. In addition, PCC should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Operating revenues of PCC consist of tuition and fees, government and federal grants, and auxiliary activities income. Transactions related to capital and financing activities, non-capital financing activities, investing activities are components of non-operating income.

Budgetary Information

Accounting principles used in developing data on a budgetary basis differ from those used in preparing financial statements in conformity with accounting principles generally accepted in the United States of America. Amounts included in the Statement of Revenues, Expenditures and Changes in Net Assets - Budget and Actual which are presented on a non-GAAP budgetary basis) reconcile to the increase in net assets on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

PCC has no authority to impose taxes to generate revenue. PCC as an autonomous agency of the Republic of Palau receives annual appropriation from the legislative branch, the Olbiil Era Kelulau (Palau National Congress). The Palau National Congress legislative budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted by the Legislature for PCC through an Annual Appropriations Act.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in bank accounts.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value.

Accounts receivable

PCC's accounts receivable consist of tuition and fee charges to students, due from federal grantor agencies and receivable from Republic of Palau. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventory

Inventory is stated at the lower of cost or market using the retail method of accounting for books and merchandise for resale, and the first-in, first-out method for all other inventory.

Capital Assets

All buildings and equipment transferred to PCC were recorded at management's estimate of fair market value at the date of transfer. PCC did not capitalized value of land at the date of transfer or public domain assets (sidewalks, curbs, gutters, etc). Subsequent additions have been recorded at cost and/or realizable value, as estimated and provided by PCC. Building additions and improvements with a cost in excess of \$1,000 are capitalized if the life of the building is extended. Furniture and equipment with a cost in excess of \$1,000 with a useful life greater than 1 year is capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Classification</u>	<u>Life</u>
Buildings and improvements	5 - 15 years
Furniture, vehicles and equipment	5 - 10 years

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not been earned.

Accrued Annual Leave

PCC recognizes cost for accrued annual leave at the time such leave is earned. Unpaid accrued leave is recorded as accrued liabilities in the accompanying financial statements. The accrued leave at September 30, 2006 and 2005 were \$86,385 and \$79,630, respectively.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

Net Assets

PCC's net assets are classified as follows:

Invested in capital assets: This represents PCC's total investment in capital assets, net of accumulated depreciation.

Restricted net assets – expendable: This includes resources in which PCC is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable: This consists of endowment fund in which donors or other outside sources have stipulated, as condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The related cash account is also restricted.

Unrestricted net assets: This includes resources derived from student tuition and fees, government appropriations, and auxiliary service income. These resources are used for transactions relating to the educational and general operations of PCC and may be used at the discretion of the governing board to meet current expenses for any purpose.

Classification of Revenues

PCC has classified its revenues as either operating or non-operating according to the following criteria:

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) most federal, state and local grants and contracts and federal appropriations; and (4) interest on investments.

Non-operating Revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations.

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 disclosures 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 COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by PCC, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the PCC's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, PCC has recorded a scholarship discount and allowance. The scholarship discounts and allowances for tuition and fees for the years ended September 30, 2006 and 2005 were \$1,085,006 and \$1,146,602, respectively. The scholarship discounts and allowances for auxiliary enterprise sales and charges for the years ended September 30, 2006 and 2005 were \$290,118 and \$441,185, respectively.

Deposits and Investments

Deposits

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 - Deposits that are federally insured or collateralized with securities held by the College or its agent in the College's name.

Category 2 - Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the College's name.

Category 3 - Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the College's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, PCC's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

Deposits, continued

As of September 30, 2006 and 2005, the carrying amount of PCC's total cash and cash equivalents was \$881,473 and \$978,065, respectively, and restricted cash was \$538,273 and \$446,001, respectively. The corresponding bank balances as of September 30, 2006 and 2005 were \$1,645,833 and \$1,140,237, respectively. Of the bank balance amounts, \$1,545,696 and \$1,046,888, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. From these deposits, \$238,935 in 2006 and \$293,531 in 2005 were subject to coverage by FDIC with the remaining balance exceeding insurable limits. The uninsured bank balance as of September 30, 2006 and 2005 was \$1,406,895 and \$846,706, respectively. PCC does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized and are subject to custodial credit risk.

In 2006, the Republic of Palau issued an order to freeze all assets of Pacific Savings Bank (Bank) and subsequently placed the bank under receivership as ordered by the Republic of Palau Financial Institutions Commission. As of September 30, 2006, PCC had cash on deposits with the Bank in the amount of \$100,137. The recoverability of this amount is uncertain as of this date.

Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 – Investments that are insured or registered, or securities held by the College or its agent in the College's name.

Category 2 – Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the College's name.

Category 3 – Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the College's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

PCC's investments are held by a bank-administered trust company under PCC's name.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, continued

Deposits and Investments, continued

Investments, continued

PCC's investments are stated at fair value and are shown below as of September 30, 2006:

	Per Policy	Actual	Sept. 30, 2006 Market Value
U.S. Equities - Large Cap Growth	20%	20%	\$ 266,087
U.S. Equities - Small Cap Core	15%	15%	194,147
International Equities	15%	15%	195,698
U.S. Equities - Large Cap Value	20%	20%	265,426
Fixed income	30%	30%	<u>388,312</u>
			<u>\$ 1,309,670</u>

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations. PCC utilizes investment managers to manage its portfolios.

PCC's investment policy specifies the following regarding fixed income investments held in its portfolio:

- All individual fixed income securities held in the portfolio shall have a Moody's, Standard & Poor's or Fitch credit quality rating of no less than "BBB". U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
- Total portfolio quality (capitalization weighted) shall maintain an "A" minimum rating.

PCC's portfolio per investment managers, is regularly reviewed to ensure compliance to abovementioned requirements.

PCC's fixed income investment totaling \$388,312 was invested in 2006 and \$306,079 in 2005 in U.S. government agencies which are unrated.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. PCC manages the risk of exposure to declines in fair value by limiting its average maturity to two years.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, continued

Deposits and Investments, continued

Investments, continued

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of September 30, 2006, PCC had no single issuer that exceeded 5% of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event a financial institution or counterparty fails, PCC would not be able to recover the value of its deposits, investments, or securities. As of September 30, 2006 and 2005, 100% of PCC's investments were held in PCC's name, and PCC is not exposed to custodial credit risk related to these investments.

*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held for less than 30 days in foreign accounts until it can be repatriated or expended.

For the years ended September 30, 2006 and 2005, PCC did not have investments in foreign currency.

New Accounting Standard

In fiscal year 2005, PCC implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The provisions of the Statement are effective for periods beginning after December 15, 2004. PCC does not believe that the implementation of this Statement will have a material effect on its financial statements.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, continued

New Accounting Standard, continued

In May 2004, GASB issued Statement No. 44, Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. PCC implemented GASB Statement No. 44 in fiscal year 2006.

Federal Financial Assistance Programs

PCC participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study Grants, Upward Bound and Basic/Core Area Health and Education Centers Programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, and the Compliance Supplement.

(2) Accounts Receivable

Accounts receivable consists of the following at September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Tuition and fees	\$ 688,305	\$ 633,108
College of Micronesia	110,951	121,521
Employee and Board of Trustees	31,273	12,864
Due from grantor agencies	1,746,078	961,900
Accounts receivable, others	<u>175,167</u>	<u>168,813</u>
	2,751,774	1,898,206
Less: allowance for Uncollectible accounts	<u>182,787</u>	<u>327,075</u>
Accounts receivable, net	<u>\$2,568,987</u>	<u>\$1,571,131</u>

(3) Inventory

Inventory consists of the following at September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Maintenance	3,401	4,546
Bookstore	180,884	234,705
Cafeteria	<u>6,666</u>	<u>28,314</u>
Total	<u>\$ 190,951</u>	<u>\$ 267,565</u>

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(4) Restricted cash

Restricted cash consists of the following at September 30, 2006 and 2005:

	2006	2005
Library fund	499,354	407,276
Endowment fund	38,919	38,725
Total	\$ 538,273	\$ 446,001

Included in the restricted cash library fund account was \$100,137 deposited in the bank that went into receivership and the recoverability is uncertain.

(5) Capital Assets

A schedule of changes in capital assets for the fiscal years ended September 30, 2006 and 2005 is shown below:

Capital assets activity for the fiscal year ended September 30, 2006:

	Balance at 9/30/05	Additions	Deletions	Balance at 9/30/06
Buildings and improvements	\$6,002,941	\$ 135,241	\$ -	\$ 6,138,182
Furniture, vehicles and equipment	2,172,974	163,557	(622,658)	1,713,873
	8,175,915	298,798	(622,658)	7,852,055
Less: Accumulated depreciation	6,345,261	583,634	622,658	6,306,237
Net capital assets	\$1,830,654	(\$ 284,836)	\$ -	\$ 1,545,818

Capital assets activity for the fiscal year ended September 30, 2005:

	Balance at 9/30/04	Additions	Deletions	Balance at 9/30/05
Buildings and improvements	\$5,956,329	\$ 46,612	\$ -	\$ 6,002,941
Furniture, vehicles and equipment	2,032,891	140,083	-	2,172,974
	7,989,220	186,695	-	8,175,915
Less: Accumulated depreciation	5,771,705	573,556	-	6,345,261
Net capital assets	\$2,217,515	(\$ 386,861)	\$ -	\$ 1,830,654

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(6) National Government Contributions

The Republic of Palau appropriated and contributed the following to PCC:

For operational costs of PCC and its Board of Trustees	\$2,385,000
Contribution of capital improvement	<u>                  -</u>
	<u>\$2,385,000</u>

For September 30, 2006 and 2005, PCC recorded \$230,288 and \$457,767, respectively, as a receivable from the Republic of Palau, which represents unremitted balances of appropriations due.

(7) Functional Expenses Classifications

The functional expenses classifications for fiscal year ended 2006 are as follows:

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Supplies, Materials, Other Operating Expenses and Services</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Student aid	\$ 99,724	\$ 174	\$ 2,169,073	\$ -	\$ -	\$ 2,268,971
Instruction	1,165,227	163,672	738,751	1,734	-	2,069,384
Administration	572,722	64,014	406,464	5,540	-	1,048,740
Student services	518,899	95,830	312,459	2,300	-	929,488
Operations and maintenance	262,147	37,526	374,741	238,069	-	912,483
Academic support	206,325	26,655	140,059	-	-	373,039
Special project	-	-	-	-	-	-
Auxiliary enterprises	199,905	49,359	469,594	8,525	-	727,383
Depreciation	-	-	-	-	583,634	583,634
	<u>\$ 3,024,949</u>	<u>\$ 437,230</u>	<u>\$ 4,611,141</u>	<u>\$ 256,168</u>	<u>\$ 583,634</u>	<u>\$ 8,913,122</u>

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(7) Functional Expenses Classifications, continued

The functional expenses classifications for fiscal year ended 2005 are as follows:

	Salaries	Employee Benefits	Supplies, Materials, Other Operating Expenses and Services	Utilities	Depreciation	Total
Student aid	\$ 135,177	\$ 561	\$ 1,954,383	\$ -	\$ -	\$ 2,090,121
Instruction	1,066,016	156,408	895,254	1,040	-	2,118,718
Administration	334,107	58,946	581,150	-	-	974,203
Student services	466,780	85,827	295,184	2,600	-	850,391
Operations and maintenance	255,974	31,406	179,222	174,816	-	641,418
Academic support	204,259	27,292	104,525	-	-	336,076
Special project	-	-	395,628	-	-	395,628
Auxiliary enterprises	184,329	27,745	320,442	1,300	-	533,816
Depreciation	-	-	-	-	573,556	573,556
	<u>\$ 2,646,642</u>	<u>\$ 388,185</u>	<u>\$ 4,725,788</u>	<u>\$ 179,756</u>	<u>\$ 573,556</u>	<u>\$ 8,513,927</u>

(9) Retirement Plan

PCC 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 Fund issues a stand-alone financial report which is available at its office site.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic of Palau State Governments and Republic of Palau agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are the 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 30 years of vesting service, are entitled to retirement benefits. Republic of Palau Public Law 2-26 is the authority under which benefit provisions and contributions rates are established. Member contribution rates are established by Republic of Palau Public Law 2-26 at six percent (6%) of total payroll and are matched dollar for dollar by the employer. PCC contributed \$336,582 and \$277,272 for fiscal years 2006 and 2005, respectively.

Under the provisions of the Republic of Palau Public Law 2-26, the Fund's Board of Trustees adopted a Trust Fund Operation 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.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(9) Retirement Plan, continued

The Fund utilizes the actuarial cost method termed "level aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation. The following is the statement of actuarial assumptions for the year October 1, 2002 to September 30, 2003 of the ROP Civil Service Pension Plan:

Actuarial Cost Method: Normal costs are calculated under the level aggregate method.

Investment Income : 8.5% per year  
Expenses : \$300,000 each year  
Salary Increase : 3% per year  
Mortality : 1984 Unisex Pension Mortality Table  
Disabled Mortality: PBGC Mortality Table for Disabled Persons receiving Social Security  
Retirement Age : Earlier of age 60 or 30 Years of Total Service

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 affects 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, 2003 actuarial valuation determined the unfunded pension benefit obligation as follows:

Present value of accrued benefits, 10/1/2003	
Active participants	\$ 31,066,000
Inactive participants with vested deferred benefits	1,540,000
Participants in pay status	<u>42,482,000</u>
Total pension benefit obligation	75,088,000
Market value of assets	<u>36,247,000</u>
Unfunded benefit obligation	<u>\$ 38,841,000</u>
Funded Ratio as of 10/1/2003 (ratio of assets to liabilities)	<u>48.27%</u>

(10) Commitment and Contingencies

Encumbrances

PCC reserves its fund balance for internal purposes, for those portions legally segregated for specific future use. At September 30, 2006 and 2005, the reserve for encumbrances was \$130,611 and \$47,298, respectively, within the unrestricted fund.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
September 30, 2006 and 2005

(10) Commitment and Contingencies, continued

Sick Leave

It is the policy of PCC to record the expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The accumulated sick leave at September 30, 2006 and 2005 was \$951,236 and \$907,977, respectively.

Risk Management

PCC 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. PCC has elected for self-insurance related to these risks. No self-insurance provision has been made in the accompanying financial statements and management is of the opinion that no material losses have occurred as a result. PCC does not maintain adequate insurance coverage for its fixed assets. In the event of a catastrophe, PCC may be self-insured to a material extent.

(11) Reclassifications

Certain reclassifications have been made to fiscal year 2005 amounts in order to conform to the fiscal year 2006 presentation.

The beginning unrestricted net assets of \$407,276 have been reclassified to restricted expendable net assets to reflect the library fund account that will be used for the construction of the library. The reclassification did not change PCC's overall net assets balance.

**PALAU COMMUNITY COLLEGE**  
**(A Component Unit of the Republic of Palau)**

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**STATISTICAL SECTION**

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**Year Ended September 30, 2006**

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

NET ASSETS  
Last Five Fiscal Years Ended September 30  
Unaudited

	2006	2005	2004	2003	2002
Invested in capital assets	\$ 1,545,818	\$ 1,830,654	\$ 2,217,515	\$ 2,496,517	\$ 2,874,142
Restricted	1,770,933	1,071,376	510,744	500,321	431,176
Unrestricted	2,439,443	2,502,533	1,530,054	836,616	(105,981)
Total Net Assets	\$ 5,756,194	\$ 5,404,563	\$ 4,258,313	\$ 3,833,454	\$ 3,199,337

Source: Annual reports on audited financial statements for the past five fiscal years.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

CHANGES IN NET ASSETS  
Last Five Fiscal Years Ended September 30 (1)  
Unaudited

	2006	2005	2004	2003	2002
<b>Operating Revenues</b>					
Tuition and fees	\$ 1,703,768	\$ 1,703,396	\$ 1,296,254	\$ 1,316,459	\$ 1,048,212
Federal grants	3,595,841	3,281,304	4,225,650	4,536,804	3,442,818
Auxiliary enterprise sales and charges	743,696	660,850	652,148	704,251	548,932
Other grants	390,678	819,287	326,760	362,172	211,504
Other operating revenues	73,803	86,795	100,117	132,831	161,150
<b>Total operating revenues</b>	<b>6,507,786</b>	<b>6,551,632</b>	<b>6,600,929</b>	<b>7,052,517</b>	<b>5,412,616</b>
<b>Operating Expenses</b>					
Student aid	2,268,970	2,090,121	2,408,722	2,997,163	2,415,702
Instruction	2,069,384	2,118,718	2,609,079	2,262,913	2,056,202
Administration	1,048,741	974,203	966,061	526,117	605,455
Student services	929,488	850,391	836,517	821,240	620,472
Operations and Maintenance	912,483	641,418	560,516	606,472	640,547
Academic support	373,039	336,076	264,812	232,700	338,160
Special project	-	395,628	-	-	-
Auxiliary enterprises	727,383	533,816	715,288	734,244	549,831
Depreciation	583,634	573,556	529,223	619,213	614,084
<b>Total operating expenses</b>	<b>8,913,122</b>	<b>8,513,927</b>	<b>8,890,218</b>	<b>8,800,062</b>	<b>7,840,453</b>
<b>Operating income (loss)</b>	<b>(2,405,336)</b>	<b>(1,962,295)</b>	<b>(2,289,289)</b>	<b>(1,747,545)</b>	<b>(2,427,837)</b>
<b>Non-operating revenues</b>					
Republic of Palau appropriations	2,385,000	2,385,000	2,415,000	2,345,000	2,345,050
Investment income earned	371,967	723,545	299,148	36,662	745
<b>Total non-operating revenues</b>	<b>2,756,967</b>	<b>3,108,545</b>	<b>2,714,148</b>	<b>2,381,662</b>	<b>2,345,795</b>
<b>Change in net assets</b>	<b>\$ 351,631</b>	<b>\$ 1,146,250</b>	<b>\$ 424,859</b>	<b>\$ 634,117</b>	<b>\$ (82,042)</b>

Source: Annual reports on audited financial statements for the past five fiscal years.

Note (1): Beginning in fiscal year 2001/02, Palau Community College implemented the reporting requirements of GASB Statement No. 35. Since prior years financial information has not been restated, only the past five fiscal years are presented here.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

REVENUES BY SOURCE  
Last Five Fiscal Years Ended September 30  
Unaudited

Function	2006	2005	2004	2003	2002
ROP Appropriations	\$ 2,385,000	\$ 2,385,000	\$ 2,415,000	\$ 2,345,000	\$ 2,345,050
U.S. Federal Grants	3,595,841	3,281,304	4,225,650	4,536,804	3,022,174
Tuition and Fees	1,703,768	1,703,396	1,296,254	1,316,459	1,048,212
Investment Income	371,967	723,545	299,148	36,662	745
Auxiliary Service Income	743,696	660,850	652,148	704,251	548,932
Other Grants	390,678	819,287	326,760	362,172	632,148
Other Operating Revenues	73,803	86,795	100,117	132,831	161,150
<b>Total Revenues</b>	<b>\$ 9,264,753</b>	<b>\$ 9,660,177</b>	<b>\$ 9,315,077</b>	<b>\$ 9,434,179</b>	<b>\$ 7,758,411</b>

Source: Annual reports on audited financial statements for the past five fiscal years.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

EXPENSES BY FUNCTION  
Last Five Fiscal Years Ended September 30  
Unaudited

Function	2006	2005	2004	2003	2002
Student Aid	\$ 2,268,970	\$ 2,090,121	\$ 2,408,722	\$ 2,997,163	\$ 2,415,702
Instruction	2,069,384	2,118,718	2,609,079	2,262,913	2,056,202
Administration	1,048,741	974,203	966,061	526,117	605,455
Student Services	929,488	850,391	836,517	821,240	620,472
Operations and Maintenance	912,483	641,418	560,516	606,472	640,547
Academic Support	373,039	336,076	264,812	232,700	338,160
Special Project	-	395,628	-	-	-
Auxiliary Enterprises	727,383	533,816	715,288	734,244	549,831
Depreciation	583,634	573,556	529,223	619,213	614,084
Total Expenditures	\$ 8,913,122	\$ 8,513,927	\$ 8,890,218	\$ 8,800,062	\$ 7,840,453

Source: Annual reports on audited financial statements for the past five fiscal years.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

AVERAGE NUMBER OF EMPLOYEES  
Last Ten Fiscal Years Ended September 30  
Unaudited

Fiscal Year	Employees				
	Regular Faculty	Associate Faculty	Regular Staff	Par-time/ Temp. Staff	Total Employees
1997	26	13	85	58	182
1998	24	12	79	57	172
1999	24	12	79	57	172
2000	31	18	84	45	178
2001	28	17	86	52	183
2002	28	17	86	47	178
2003	25	14	83	59	181
2004	28	18	84	42	172
2005	24	18	73	60	175
2006	23	13	84	69	189

Source: PCC Human Resource Records

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

TUITION RATES & ENROLLMENT STATISTICS  
Last Ten Fiscal Years Ended September 30  
Unaudited

Fiscal Year	Tuition Rate Per Credit Hour	ENROLLMENT		
		Total Headcount	FTSE (1)	Par-time & Others (2)
1997	\$60	5,947	1,627	4,320
1998	\$60	7,380	1,737	5,643
1999	\$60	7,502	1,459	6,043
2000	\$60	3,533	1,590	1,943
2001	\$60	4,828	1,544	3,284
2002	\$60	3,446	1,788	1,658
2003	\$60	2,747	1,884	863
2004	\$70	3,511	1,634	1,877
2005	\$70	4,799	1,710	3,089
2006	\$70	6,181	1,571	4,610

Source: PCC Records

Note (1): Full Time Student Equivalent (FTSE) is 30 Credit Hours.

Note (2): Others consists of Continuing Education & Specialized Training enrollments including CRE & OMIP.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

STUDENT ENROLLMENT/DEMOGRAPHIC STATISTICS  
Last Ten Fiscal Years Ended September 30  
Unaudited

Fall Semester Fiscal Year	Attendance		Gender		Residency		AGE	
	Full Time	Part Time	Male	Female	IN Campus	OFF Campus	Median	Mean
1997	73.1%	26.9%	50.1%	49.9%	14.6%	85.4%	21	21
1998	81.5%	18.5%	54.9%	45.1%	26.9%	73.1%	20	22
1999	69.4%	30.6%	49.2%	50.8%	24.1%	75.9%	20	21
2000	63.1%	36.9%	44.1%	55.9%	17.3%	82.7%	20	22
2001	59.3%	40.7%	43.3%	56.7%	14.1%	85.9%	19	22
2002	70.5%	29.5%	45.2%	54.8%	15.7%	84.3%	19	25
2003	64.9%	35.1%	42.6%	57.4%	13.9%	86.1%	19	21
2004	71.9%	28.1%	41.1%	58.9%	14.6%	85.4%	19	27
2005	66.1%	33.9%	57.5%	42.5%	12.1%	87.9%	19	32
2006	66.2%	33.8%	42.9%	57.1%	13.7%	86.3%	20	33

Fall Semester Fiscal Year	Nationality						
	Palau	Yap	Ponpei	Chuke	Marshalls	U.S.A.	Others(1)
1997	80.5%	10.9%	2.3%	3.4%	0.0%	1.1%	1.7%
1998	69.6%	20.6%	1.8%	3.0%	0.9%	0.9%	3.3%
1999	69.6%	22.0%	0.9%	2.3%	0.5%	1.2%	3.5%
2000	78.9%	12.9%	0.5%	1.2%	0.2%	0.5%	5.9%
2001	80.0%	10.2%	0.9%	1.6%	0.6%	1.7%	5.0%
2002	83.0%	8.3%	1.2%	1.5%	1.2%	2.5%	2.3%
2003	78.0%	11.7%	1.4%	2.2%	1.2%	3.0%	2.5%
2004	77.9%	9.2%	1.8%	1.4%	1.8%	5.0%	2.8%
2005	73.7%	12.4%	1.7%	1.4%	1.7%	4.5%	4.6%
2006	73.0%	15.1%	1.5%	2.3%	2.0%	3.4%	2.8%

Source: PCC records

Note (1): Others consists of Taiwan, Korea, China, Japan, Philipines and Bangladesh.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

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SINGLE AUDIT REPORTS

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Year Ended September 30, 2006

J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Palau Community College

I have audited the financial statements of the Palau Community College (PCC), as of and for the year ended September 30, 2006 and have issued my report thereon dated January 25, 2007. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered PCC's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk of misstatements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PCC's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of PCC, the Board of Trustees, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies and is not intended to be, and should not be used by anyone other than these specified parties.

*J. Scott Magliari & Company*

Koror, Republic of Palau  
January 25, 2007

J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133 AND ON THE SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS

Board of Trustees  
Palau Community College

Compliance

I have audited the compliance of the Palau Community College (PCC) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. PCC's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs (page 42). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of PCC's management. My responsibility is to express an opinion on PCC's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PCC's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on PCC's compliance with those requirements.

In my opinion, PCC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

### Internal Control Over Compliance

The management of PCC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered PCC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

### Schedule of Expenditures of Federal Awards

I have audited the basic financial statements of PCC as of and for the year ended September 30, 2006, and have issued my report thereon dated January 25, 2007. My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 39) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of PCC. Such information has been subjected to the auditing procedures applied in my audit of the financial statements and, in my opinion, is fairly stated, in all material respects, when considered in relation to the financial statements taken as a whole.

This report is intended for the information of management, the Board of Trustees, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



Koror, Republic of Palau  
January 25, 2007

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

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SUPPLEMENTARY INFORMATION

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Year Ended September 30, 2006

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Introduction to Federal Award Programs  
Year Ended September 30, 2006

United States Department of Education

Student Award Programs

The Palau Community College (PCC) administers student financial aid (SFA) programs within the Republic of Palau. During the year ended September 30, 2006, PCC received directly from the U.S. Department of Education funds related to the Pell Grant Program, the Supplemental Educational Opportunity Grant Program (SEOG) and Federal Work-Study Program (FWS). PCC's institutional matching share for the SEOG and FWS was initially waived during the award year ended June 30, 2003 and continues to be in effect.

Direct Grants

PCC receives other grants directly from the U.S. Department of Education. Projects to which the individual grants relate are as follows:

- Upward Bound Program
- Upward Bound Math and Science
- Talent Search
- Student Support Services Program
- Teachers Technology
- Minority Science

United States Department of Health and Human Services

Direct Grants

PCC receives grants from the U.S. Department of Health and Human Services (DHHS)/Health Resources and Services Administration (HRSA) through the University of Hawaii John A. Burns Schools of Medicine (JABSOM). The purpose of this grant is to fund the Palau Area Health Education Center whose core mission is to train up to 20 Micronesian physicians in the Postgraduate Diploma principles and practice of Family Practice.

United States Department of the Interior

Grant Passed Through to PCC

During the year ended September 30, 2006, PCC received from the U.S. Department of the Interior through the Republic of Palau, grants to provide Joint Training to the employees of the Republic of Palau National Government and Palau Community College, and grants related to the Compact of Free Association.

PALAU COMMUNITY COLLEGE

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2006

Federal Grantor/Pass-Through Grantor's Program Title	CFDA Number	Program or Award Amount	Receivable from Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable from Grantor (Deferred Revenue) at September 30, 2006
<u>U.S. Department of Education</u>						
<u>Direct Programs</u>						
Student Financial Aid Programs:						
Supplemental Educational Opportunity Grant						
	84.007	\$ 60,837	\$ 11,787	\$ 37,019	\$ 73,231	\$ 47,999
	84.033	127,850	(8,226)	80,442	90,439	1,771
	84.063	1,976,336	846,174	1,670,086	2,193,038	1,369,126
Sub-total Student Financial Aid Programs		2,165,023	849,735	1,787,547	2,356,708	1,418,896
Student Support Services Program	84.042A	244,735	5,861	173,777	182,819	14,903
Upward Bound Program	84.047A	279,496	6,150	334,772	359,618	30,996
Upward Bound Math and Science	84.047M	220,000	6,130	195,593	207,487	18,024
Minority Science	84.120A	215,324	11,742	71,409	87,899	28,232
Talent Search	84.044A	204,000	41,249	221,348	203,054	22,955
Sub-total U.S. Department of Education		3,228,578	920,867	2,784,446	3,397,585	1,534,006
<u>U.S. Department of Health and Human Services</u>						
Basic/Core Area Health and Education Center	93.824	200,000	37,501	28,389	198,255	207,367
<u>U.S. Institute of Museum and Library Services</u>						
	45.301	137,546	(1,761)	-	-	(1,761)
<u>U.S. Department of Agriculture</u>						
	10.303	25,000	5,293	5,437	6,610	6,466
<u>U.S. Department of the Interior</u>						
<u>Indirect Program</u>						
Agreement between the Government of the United States and the Government of the Republic of Palau for the Implementation of Section 221(b)(1) of the Compact of Free Association						
	15.875	2,000,000	-	2,000,000	2,000,000	-
PCC-ROPNG Joint Training						
	15.88	150,000	13,976	13,976	-	-
	GR470067	100,000	26,819	26,819	-	-
	15.88	100,000	-	16,971	21,714	4,743
	GR370030	36,500	-	-	30,208	30,208
Sub-total U.S. Department of the Interior		2,386,500	40,795	2,057,766	2,051,922	34,951
Total Federal Programs		\$ 6,077,624	\$ 1,002,695	\$ 4,876,038	\$ 5,654,372	\$ 1,781,029

See accompanying notes to financial statements.

PALAU COMMUNITY COLLEGE

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2006

(1) Scope of Review

The Palau Community College (PCC) is a non-profit corporation, established by Republic of Palau Public Law 4-2. PCC was inaugurated on June 3, 1993. Prior to June 3, 1993, PCC was known as the Micronesian Occupational College, and was a separately accredited constituent campus of the College of Micronesia. The College of Micronesia began operations as a Public Corporation on October 1, 1977.

The purpose of PCC is to provide post secondary educational opportunities to the people of the Republic of Palau, Federated States of Micronesia, Republic of the Marshall Islands, as well as other students. The accompanying Schedule of Expenditures of Federal Awards relates solely to those grants administered by PCC, and do not incorporate any grants that may still be administered by the College of Micronesia central office. The U.S. Department of the Education has been designated as PCC's cognizant agency.

a. Programs Subject to OMB Circular A-133

The Schedule of Expenditures of Federal Awards presents each Federal Award related to the U.S. Department of Education, U.S. Department of Health and Human Services and U.S. Department of the Interior, which are subject to OMB Circular A-133. Certain accounting procedures were followed, which help illustrate the program award amount and expenditures of the individual programs.

(2) Summary of Significant Accounting Policies

a. Basis of accounting

For purposes of preparation of the accompanying Schedule of Expenditures of Federal Awards, certain accounting procedures were followed, which help illustrate the program award amount and expenditures of the individual programs. The accompanying Schedule of Expenditures of Federal Awards was prepared on the accrual basis of accounting. All program award amounts represent the total allotment or grant award approved. All expenses and capital outlays are reported as expenditures.

b. Cost Allocation

PCC does not currently have an approved cost allocation plan.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2006

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report issued: unqualified opinion

Internal control over financial reporting:

- Material weakness(es) identified \_\_\_\_\_ yes   x   no
- Reportable condition(s) identified that are not considered to be material weaknesses \_\_\_\_\_ yes   x   none reported

Noncompliance material to Financial Statements noted

\_\_\_\_\_ yes   x   no

Federal Awards

Internal controls over major programs

- Material weakness(es) identified \_\_\_\_\_ yes   x   no
- Reportable condition(s) identified that are not considered to be material weaknesses \_\_\_\_\_ yes   x   none reported

Type of auditor's report issued on compliance for major programs: unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

\_\_\_\_\_ yes   x   no



PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2006

SECTION II – Findings relating to the Financial Statements which are required  
to be reported in accordance with *Government Auditing Standards*

There were no reportable conditions.

PALAU COMMUNITY COLLEGE  
(A Component Unit of the Republic of Palau)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2006

SECTION III - Findings and Questioned Costs relating to Federal Awards

There were no reportable conditions.