

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

---

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

---

**Years Ended September 30, 2007 and 2006**

2007  
Comprehensive Annual  
Financial Report

Fiscal year ended September 30, 2007  
P.O. Box 9  
Koror, Palau 96940



PALAU  
COMMUNITY  
COLLEGE

# PALAU COMMUNITY COLLEGE

## COMPREHENSIVE ANNUAL FINANCIAL REPORT Fiscal Year Ended September 30, 2007

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

TABLE OF CONTENTS  
September 30, 2007 and 2006

<u>ITEM(s)</u>	<u>PAGE(s)</u>
I. INTRODUCTORY SECTION	
Table of Contents	I-II
President's Letter	III
Transmittal Letter	IV-IX
Principal Officials	X
Organization Chart	XI
II. FINANCIAL SECTION	
Independent Auditor's Report on Financial Statements	1-2
Management's Discussion and Analysis (required supplementary information)	3-7
Statements of Net Assets	8
Statements of Revenues, Expenses And Changes in Net Assets	9
Statements of Cash Flows, Direct Method	10-11
Statements of Revenues, Expenses, and Changes in Net Assets - Budget and Actual	12
Notes to Financial Statements	13-27
III. SINGLE AUDIT REPORTS	
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	28-29
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	30-31
Introduction to Federal Award Programs	32
Schedule of Expenditures of Federal Awards	33
Notes to Schedule of Expenditures of Federal Awards	34
Schedule of Findings and Questioned Costs	
Summary of Auditor's Results	35-36
Findings relating to the Financial Statements which are required to be reported in accordance with Government Auditing Standards	36
Findings and Questioned Costs relating to Federal Awards	36

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS  
September 30, 2007 and 2006

IV. STATISTICAL SECTION

Net Assets	37
Changes in Net Assets	38
Revenues by Source	39
Expenses by Function	40
Average Number of Employees	41
Tuition Rates and Enrollment Statistics	42
Student Enrollment/Demographic Statistics	43

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

---

**INTRODUCTORY SECTION**

---

**Year Ended September 30, 2007**

# Introductory Section

March 10, 2008

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 2007. This document presents the record of Palau Community College's financial operations for the year ended September 30, 2007.

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 2007 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 study at PCC 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 dedication to make Palau Community College a learning place for all Palauans and citizens from our neighboring countries.

Respectfully,

/s/ Patrick U. Tellei, *Edd*

Patrick U. Tellei, *Edd*  
President

March 10, 2008

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, 2007, 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
- 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.

During the fiscal year ending September 30, 2007, 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), 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 below:

1. **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.
2. **Institutional Culture:**  
We believe in a culture that promotes quality service and continuous learning for staff and students alike.
3. **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.
4. **Student Retention:**  
The College needs to have programs and mechanisms in place to retain students making sure they do finish their education.
5. **Facilities:**  
We seek to have the necessary facilities and infrastructure to support our programs and services.
6. **Technology:**  
We are committed to providing the basic technology to allow students and staff access to global information.

7. Public Relations:

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

8. 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 eight years.

<u>Enrollment</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Full Time Total	1,590	1,544	1,788	1,884	1,634	1,710	1,571	1,570
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>	<u>5,399</u>
*Total	<u>3,533</u>	<u>4,828</u>	<u>3,446</u>	<u>2,747</u>	<u>3,511</u>	<u>4,799</u>	<u>4,610</u>	<u>6,969</u>

\*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, 2007, the College's investments from current funds generated \$176,419 in investment income, \$171,765 from endowment fund investments and \$4,654 from library fund investments. The College invests funds in Money Market funds managed by Salomon Smith Barney.

## **RISK MANAGEMENT**

In fiscal year 2007, the College paid approximately \$6,295 for Worker's Compensation and \$3,841 for General Liabilities insurance coverage as protection against risks. The College also paid \$13,740 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, 2007

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

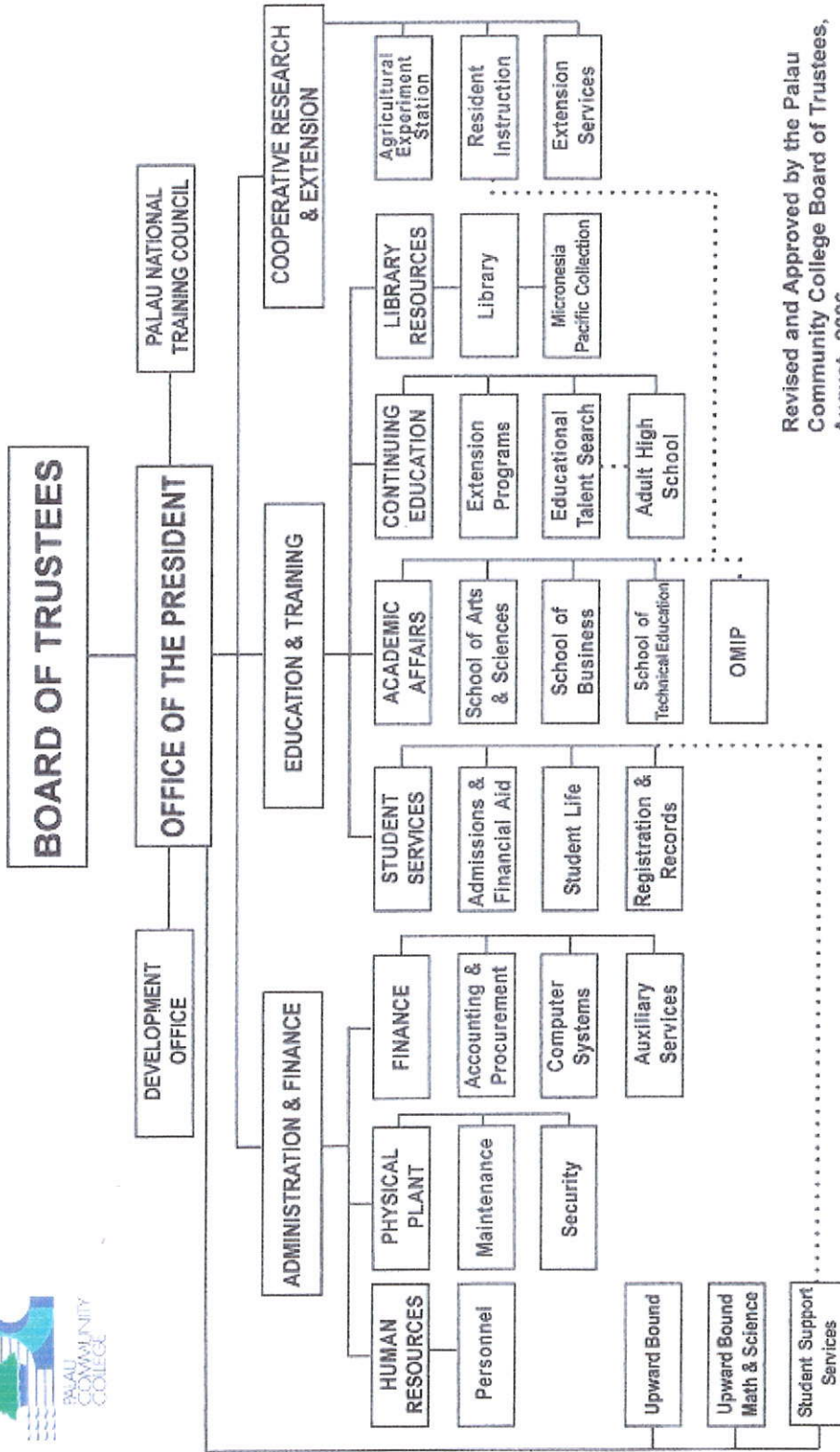
Dr. Patrick U. Tellei, Ed.D.	President
Mr. Jay Olegeriil	Vice President for Administration and Finance
Mr. Thomas Taro	Vice President for Cooperative Research & Extension
Mrs. Alvina Timarong	Dean of Academic Affairs
Mr. William O. Wally	Dean of Continuing Education
Mrs. Marencia Edwards	Dean of Students
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. Salii*  
Bilung Gloria G. Salii  
Chairperson of the Board

Adopted August 1994  
Revised August 2006

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

---

**FINANCIAL SECTION**

---

**Years Ended September 30, 2007 and 2006**

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

---

**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**

---

**September 30, 2007 and 2006**

J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

**SAIPAN OFFICE:**

Family Building, Suite 201  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel. No. (670) 233-1837/0456  
Fax. No. (670) 233-8214  
Email: [magliari@pticom.com](mailto:magliari@pticom.com)

**GUAM OFFICE:**

Reflection Center, Suite 204  
P.O. Box 12734  
Tamuning, GU 96931  
Tel. No. (671) 472-2680/2687  
Fax. No. (671) 472-2686  
Email: [jsmguam@ite.net](mailto:jsmguam@ite.net)

**PALAU OFFICE:**

PIDC Apartment No. 11  
P.O. Box 1266  
Koror, PW 96940  
Tel. No. (680) 488-8615  
Fax. No. (680) 488-8616  
Email: [coconutrum@palaunet.com](mailto:coconutrum@palaunet.com)

**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, 2007 and 2006. 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, 2007 and 2006, 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 40 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 March 10, 2008 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.

*J. Scott Magliani & Company*

Koror, Republic of Palau  
March 10, 2008



PALAU  
COMMUNITY  
COLLEGE

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

Management's Discussion and Analysis  
September 30, 2007

**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, 2007. 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 13-27). 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, 2007, 2006, and 2005**

	2007	2006	2005
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 562,500	\$ 881,473	\$ 978,065
Accounts receivable, net	2,069,176	2,568,987	1,571,131
Appropriations receivable	784,309	230,288	457,767
Inventory	173,179	190,951	267,565
Prepaid expenses	-	-	3,555
<b>Total current assets</b>	<b>3,589,164</b>	<b>3,871,699</b>	<b>3,278,083</b>
Noncurrent assets			
Restricted cash	587,115	538,273	446,001
Endowment investments	1,631,240	1,309,670	1,029,976
Capital assets, net of accumulated depreciation	1,100,177	1,545,818	1,830,654
<b>Total noncurrent assets</b>	<b>3,318,532</b>	<b>3,393,761</b>	<b>3,306,631</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,907,696</b>	<b>\$ 7,265,460</b>	<b>\$ 6,584,714</b>

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

Management's Discussion and Analysis  
September 30, 2007

**Financial Analysis of the College as a Whole**  
**Net Assets**  
**As of September 30, 2007, 2006, and 2005**

	2007	2006	2005
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 284,799	\$ 788,920	\$ 618,785
Accrued liabilities	280,530	261,924	239,924
Deferred tuition and fees revenue	156,687	273,721	185,934
Other deferred revenue	183,508	184,701	135,508
<b>TOTAL LIABILITIES</b>	<b>905,524</b>	<b>1,509,266</b>	<b>1,180,151</b>
<b>NET ASSETS</b>			
Invested in capital assets	1,100,177	1,545,818	1,830,654
Restricted	2,083,494	1,770,933	1,478,652
Unrestricted	2,818,501	2,439,443	2,095,257
<b>TOTAL NET ASSETS</b>	<b>\$ 6,002,172</b>	<b>\$ 5,756,194</b>	<b>\$ 5,404,563</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 2007 increased to \$6.0 million from \$5.75 million in fiscal year 2006. Endowment investments also increased in FY2007 to \$1.6 million from \$1.3 million in fiscal year 2006.

Current liabilities decreased in fiscal year 2007 as compared to the previous fiscal year due to decrease in deferred tuition fees and revenues and accounts payable.

With continued diligent and prudent fund management, the College was able to end fiscal year 2007 with an increase in fund balance of \$245,978.

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

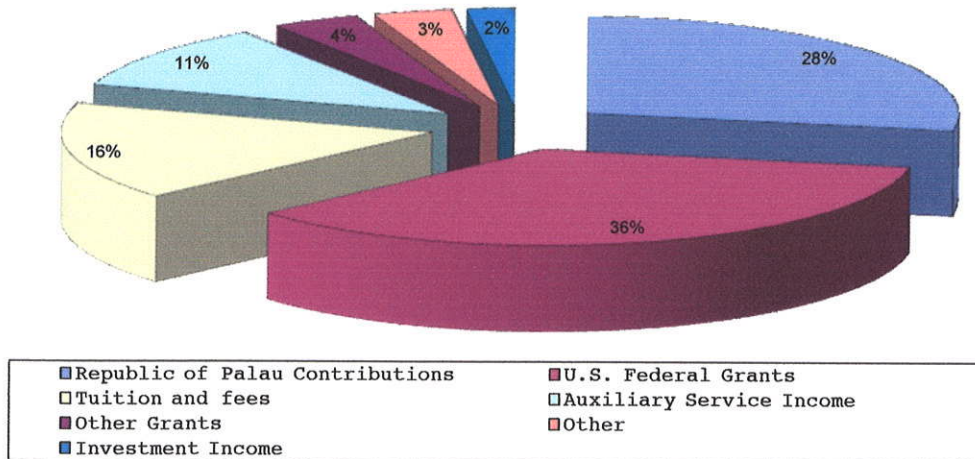
Management's Discussion and Analysis  
September 30, 2007

**Operating Revenues for the Year Ended  
September 30, 2007**

	Unrestricted	Restricted	Total
Revenues			
Republic of Palau Appropriations	\$ 2,385,000	\$ -	\$ 2,385,000
U.S. Federal Grants	-	3,061,096	3,061,096
Tuition and fees	1,270,685	147,880	1,418,565
Auxiliary Enterprise Sale and Charges	942,816	-	942,816
Other Grants	28,172	126,301	154,473
Other	294,856	172,168	467,024
Investment Income	-	176,419	176,419
<b>Total Current Income</b>	<b>\$ 4,921,529</b>	<b>\$ 3,683,864</b>	<b>\$ 8,605,393</b>

The schedule indicates total revenues realized by the College in fiscal year 2007 of \$8.6 million. The largest portion of revenues (\$3.06 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 2007:

**Operating Revenues Breakdown  
For The Year Ended September 30, 2007**



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

Management's Discussion and Analysis  
September 30, 2007

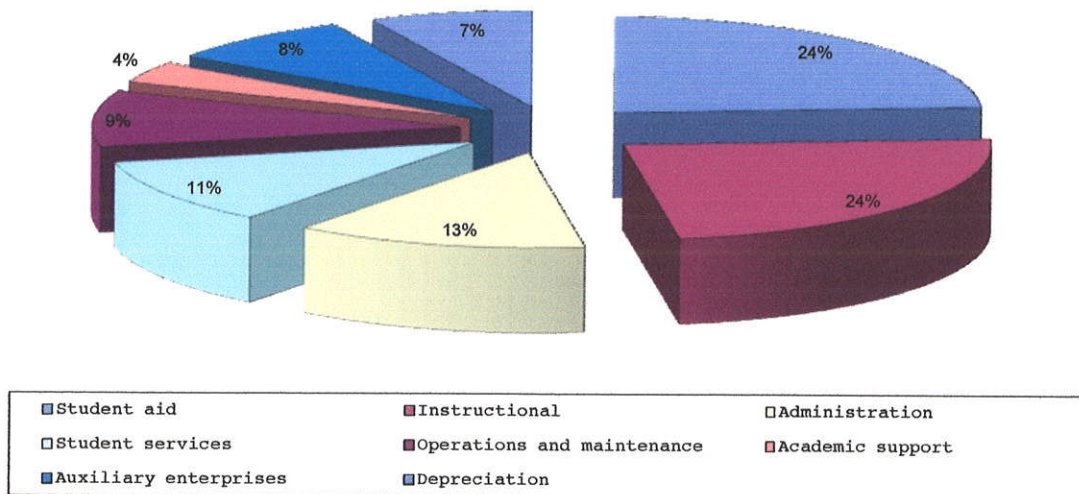
**Operating Expenses**  
**For The Year Ended September 30, 2007**

	Unrestricted	Restricted	Total
<b>Expenditures and mandatory transfers</b>			
Educational and general			
Student aid	\$ -	\$ 1,993,120	\$ 1,993,120
Instructional	1,147,962	831,116	1,979,078
Administration	976,390	98,137	1,074,527
Student services	528,412	396,918	925,330
Operations and maintenance	800,409	-	800,409
Academic support	291,128	8,139	299,267
Depreciation	-	597,467	597,467
<b>Total educational and general expenditures</b>	<b>3,744,301</b>	<b>3,924,897</b>	<b>7,669,198</b>
Mandatory transfers			
Auxiliary enterprises expenditures	690,217	-	690,217
<b>Total expenditures and mandatory transfers</b>	<b>4,434,518</b>	<b>3,924,897</b>	<b>8,359,415</b>
<b>Net increase (decrease) in fund balance</b>	<b>\$ 487,011</b>	<b>\$ (241,033)</b>	<b>\$ 245,978</b>

The above schedule shows the total operating expenditures of \$8.4 million in fiscal year 2007. As indicated under "Total" column, the College ended fiscal year 2007 with a surplus of \$245,978.

The two (2) biggest expenditures in fiscal year 2007 were for student aid (students' Pell-Grant refunds & Work-Study) and instructional activities.

**Expenses Breakdown**  
**For The Year Ended September 30, 2007**



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

Management's Discussion and Analysis  
September 30, 2007

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 562,500	\$ 881,473
Accounts receivable, net	2,069,176	2,568,987
Appropriations receivable	784,309	230,288
Inventory	<u>173,179</u>	<u>190,951</u>
Total current assets	<u>3,589,164</u>	<u>3,871,699</u>
Noncurrent assets		
Restricted cash	587,115	538,273
Endowment investments	1,631,240	1,309,670
Capital assets, net	<u>1,100,177</u>	<u>1,545,818</u>
Total noncurrent assets	<u>3,318,532</u>	<u>3,393,761</u>
Total Assets	<u>\$ 6,907,696</u>	<u>\$ 7,265,460</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Current liabilities		
Accounts payable	\$ 284,799	\$ 788,920
Accrued liabilities	280,530	261,924
Deferred tuition and fees revenue	156,687	273,721
Other deferred revenue	<u>183,508</u>	<u>184,701</u>
Total current liabilities	<u>905,524</u>	<u>1,509,266</u>
Total liabilities	<u>905,524</u>	<u>1,509,266</u>
Net Assets		
Invested in capital assets	1,100,177	1,545,818
Restricted		
Expendable	556,602	502,206
Nonexpendable	1,526,892	1,268,727
Unrestricted	<u>2,818,501</u>	<u>2,439,443</u>
Total net assets	<u>6,002,172</u>	<u>5,756,194</u>
Total Liabilities and Net Assets	<u>\$ 6,907,696</u>	<u>\$ 7,265,460</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Tuition and fees (net of scholarship discounts and allowances of \$998,919 and \$1,085,006, respectively)	\$ 1,418,565	\$ 1,795,846
Federal grants	3,061,096	3,595,841
Auxiliary enterprise sales and charges (net of scholarship discounts and allowances of \$355,417 and \$290,118, respectively)	942,815	743,696
Other grants	326,641	390,678
Other operating revenues	<u>294,856</u>	<u>73,803</u>
Total operating revenues	<u>6,043,973</u>	<u>6,599,864</u>
Operating expenses:		
Education and general:		
Student aid	1,993,121	2,268,970
Instruction	1,979,078	2,069,384
Administration	1,074,526	1,048,741
Student services	925,330	929,488
Operations and maintenance	800,409	912,483
Academic support	299,266	373,039
Auxiliary enterprises	690,217	727,383
Depreciation	<u>597,467</u>	<u>583,634</u>
Total operating expenses	<u>8,359,414</u>	<u>8,913,122</u>
Operating loss	<u>(2,315,441)</u>	<u>(2,313,258)</u>
Non-operating revenues:		
Republic of Palau appropriations	2,385,000	2,385,000
Investment income earned	<u>176,419</u>	<u>279,889</u>
Total non-operating revenues	<u>2,561,419</u>	<u>2,664,889</u>
Increase in net assets	245,978	351,631
Net assets beginning of year	<u>5,756,194</u>	<u>5,404,563</u>
Net assets end of year	<u>\$ 6,002,172</u>	<u>\$ 5,756,194</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from students for tuition and fees	\$ 1,301,531	\$ 1,883,633
Cash received from auxiliary activities	942,815	743,696
Cash received from federal grants	3,127,314	3,052,048
Cash received from other grants	688,327	287,088
Cash paid to suppliers and employees	<u>(8,418,141)</u>	<u>(8,057,182)</u>
Net cash used in operating activities	<u>(2,358,154)</u>	<u>(2,090,717)</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>(151,826)</u>	<u>(298,797)</u>
Net cash used in capital and related financing activities	<u>(151,826)</u>	<u>(298,797)</u>
Cash flows from investing activities:		
Investment income received from investments	176,419	279,889
Library fund investments	(147,880)	(92,078)
Endowment fund investments	<u>(222,532)</u>	<u>(279,889)</u>
Net cash used in investing activities	<u>(193,993)</u>	<u>(92,078)</u>
Net decrease in cash and cash equivalents	(318,973)	(96,592)
Cash and cash equivalents, beginning of year	<u>881,473</u>	<u>978,065</u>
Cash and cash equivalents, end of year	<u>\$ 562,500</u>	<u>\$ 881,473</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 30, 2007 and 2006

	2007	2006
Reconciliation of operating loss to net cash provided by (used) in operating activities:		
Operating loss	\$ (2,315,441)	\$ (2,313,258)
Adjustments to reconcile operating loss to net cash provided by (used) in operating activities:		
Provision for bad debts	98,137	-
Depreciation	597,467	583,634
Changes in net assets		
Accounts receivable, net	401,674	(997,856)
Appropriations receivable	(554,021)	227,479
Prepaid expenses	-	3,555
Inventory	17,772	76,614
Accounts payable	(504,121)	170,135
Accrued liabilities	18,606	22,000
Deferred tuition and fees revenue	(117,034)	87,787
Other deferred revenue	(1,193)	49,193
Net cash used in operating activities	\$ (2,358,154)	\$ (2,090,717)

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 - BUDGET AND  
ACTUAL

For the Year Ended 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Favorable (Unfavorable) Variance
Operating revenues	\$ 4,332,146	\$ 4,332,146	\$ 6,043,973	\$ 1,711,827
Operating expenses:				
Supplies, materials, other operating expenses and services	2,718,550	2,718,550	4,192,914	(1,474,364)
Salaries	2,843,869	2,843,869	2,908,934	(65,065)
Depreciation	597,467	597,467	597,467	-
Employee benefits	267,660	267,660	384,414	(116,754)
Utilities	289,600	289,600	275,685	13,915
Total operating expenses	6,717,146	6,717,146	8,359,414	(1,642,268)
Operating loss	(2,385,000)	(2,385,000)	(2,315,441)	69,559
Non-operating revenues:				
Republic of Palau appropriations	2,385,000	2,385,000	2,385,000	-
Investment income earned	-	-	176,419	176,419
Total non-operating revenues, net	2,385,000	2,385,000	2,561,419	176,419
Increase in net assets	\$ -	\$ -	\$ 245,978	\$ 245,978

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2007 and 2006

(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, 2007. 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, 2007. 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, 2007. 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, 2007 and 2006

(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, 2007 and 2006

(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.

Compensated Absences

Compensated absences represent the accumulated liability to be paid under PCC's current annual leave policy. 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, 2007 and 2006 were \$141,284 and \$86,385, respectively.

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

Notes to Financial Statements  
September 30, 2007 and 2006

(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 funds 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, 2007 and 2006

(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, 2007:

	<u>Per Policy</u>	<u>Actual</u>	<u>Sept. 30, 2007</u> <u>Market Value</u>
U.S. Equities - Large Cap Growth	20%	20%	\$ 335,179
U.S. Equities - Small Cap Core	15%	15%	221,631
International Equities	15%	15%	244,580
U.S. Equities - Large Cap Value	20%	20%	323,843
Fixed income	30%	30%	<u>506,007</u>
			<u>\$ 1,631,240</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 are regularly reviewed to ensure compliance to abovementioned requirements.

In 2007, PCC's fixed income investment totaling \$506,007 was invested 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, 2007 and 2006

(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, 2007 and 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, 2007 and 2006, 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, 2007 and 2006, PCC did not have investments in foreign currency.

New Accounting Standards

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.

In April 2004, the GASB issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This statement establishes accounting and financial reporting standards for plans that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). This statement did not have an impact on the financial statements of the PCC.

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

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In June 2004, the GASB issued Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is not effective until June 30, 2008. PCC has not determined its effect on the financial statements.

In June 2005, the GASB issued Statement No. 47, *"Accounting for Termination Benefits"*. This Statement establishes accounting guidance and disclosure requirements for termination benefit arrangements. This statement is effective in two parts. For termination benefits provided through an existing defined Other Postemployment Benefit plan (OPEB), the provisions should be implemented simultaneously with GASB Statement No. 45. For all other termination benefits, this Statement is effective for periods beginning after June 15, 2005. There is no financial impact to PCC for the fiscal year ended September 30, 2007 as a result of the implementation of this statement.

In September 2006, the GASB issued Statement No. 48, *"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues"*. This statement addresses accounting and financial reporting standards for transactions where governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. This statement establishes criteria and reporting standards regarding the exchange as either a sale or collateralized borrowing, resulting in a liability. This statement is not effective until June 30, 2008. PCC has not determined its effect on the financial statements.

In November 2006, the GASB issued Statement No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations"*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not effective until June 30, 2009. PCC has not determined its effect on the financial statements.

In May 2007, the GASB issued Statement No. 50, *"Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27"*. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement is not effective until June 30, 2008. The PCC has not determined its effect on the financial statements.

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

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In June 2007, the GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010. PCC has not determined its effect on the financial statements.

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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Tuition and fees	\$ 781,049	\$ 688,305
College of Micronesia	172,009	110,951
Employees and Board of Trustees	38,682	31,273
Due from grantor agencies	1,353,423	1,746,078
Accounts receivable, others	<u>206,926</u>	<u>175,167</u>
	2,552,089	2,751,774
Less: allowance for uncollectible accounts	<u>482,913</u>	<u>182,787</u>
Accounts receivable, net	<u>\$2,069,176</u>	<u>\$2,568,987</u>

Included in the accounts receivable others was \$98,137 deposited in the bank that went into receivership and the recoverability is uncertain. An allowance for doubtful accounts has been provided in the accompanying financial statements.

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

Notes to Financial Statements  
September 30, 2007 and 2006

(3) Inventory

Inventory consists of the following at September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Maintenance	\$ -	\$ 3,401
Bookstore	167,141	180,884
Cafeteria	<u>6,038</u>	<u>6,666</u>
Total	<u>\$ 173,179</u>	<u>\$ 190,951</u>

(4) Restricted cash

Restricted cash consists of the following at September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Library fund	\$ 548,001	\$ 499,354
Endowment fund	<u>39,114</u>	<u>38,919</u>
Total	<u>\$ 587,115</u>	<u>\$ 538,273</u>

Included in the Library Fund account in 2007 is a \$500,000 time certificate of deposit in Bank of Guam placed by PCC on August 3, 2007. The one hundred eighty day note bears interest of 4.5% per annum and will mature on February 3, 2008. The library fund is restricted for the construction of the PCC's library.

(5) Capital Assets

A schedule of changes in capital assets for the fiscal years ended September 30, 2007 and 2006 is shown below:

Capital assets activity for the fiscal year ended September 30, 2007:

	Balance at <u>9/30/06</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>9/30/07</u>
Buildings and improvements	\$6,138,182	\$ 53,410	\$ -	\$ 6,191,592
Furniture, vehicles and equipment	<u>1,713,873</u>	<u>98,416</u>	-	<u>1,812,289</u>
	7,852,055	151,826	-	8,003,881
Accumulated depreciation	<u>(6,306,237)</u>	<u>(597,467)</u>	-	<u>(6,903,704)</u>
Capital assets, net	<u>\$1,545,818</u>	<u>(\$ 445,641)</u>	<u>\$ -</u>	<u>\$1,100,177</u>

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

Notes to Financial Statements  
September 30, 2007 and 2006

(5) Capital Assets, continued

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	<u>2,172,974</u>	<u>163,557</u>	<u>(622,658)</u>	<u>1,713,873</u>
	8,175,915	298,798	(622,658)	7,852,055
Accumulated depreciation	<u>(6,345,261)</u>	<u>(583,634)</u>	<u>622,658</u>	<u>(6,306,237)</u>
Capital assets, net	<u>\$1,830,654</u>	<u>(\$ 284,836)</u>	<u>\$ -</u>	<u>\$ 1,545,818</u>

(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, 2007 and 2006, PCC recorded \$784,309 and \$230,288, 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 2007 are as follows:

	Salaries	Employee Benefits	Supplies, Materials, Other Operating Expenses and Services	Utilities	Depreciation	Total
Student aid	\$ 140,737	\$ 279	\$ 1,852,105	\$ -	\$ -	\$ 1,993,121
Instruction	1,203,317	158,027	614,274	3,460	-	1,979,078
Administration	350,370	47,782	676,374	-	-	1,074,526
Student services	534,638	83,383	304,909	2,400	-	925,330
Operations and maintenance	287,472	42,105	204,619	266,213	-	800,409
Academic support	195,318	24,919	78,074	955	-	299,266
Auxiliary enterprises	197,082	27,919	462,559	2,657	-	690,217
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>597,467</u>	<u>597,467</u>
	<u>\$ 2,908,934</u>	<u>\$ 384,414</u>	<u>\$ 4,192,914</u>	<u>\$ 275,685</u>	<u>\$ 597,467</u>	<u>\$ 8,359,414</u>

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

Notes to Financial Statements  
September 30, 2007 and 2006

(7) Functional Expenses Classifications, continued

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

	Salaries	Employee Benefits	Supplies, Materials, Other Operating Expenses and Services	Utilities	Depreciation	Total
Student aid	\$ 99,724	\$ 174	\$ 2,169,072	\$ -	\$ -	\$ 2,268,970
Instruction	1,165,227	163,672	738,751	1,734	-	2,069,384
Administration	572,722	64,014	406,465	5,540	-	1,048,741
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
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>

(8) 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 \$284,016 and \$336,582 for fiscal years 2007 and 2006, 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, 2007 and 2006

(8) 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, 2004 to September 30, 2005 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, 2005 actuarial valuation determined the unfunded pension benefit obligation as follows:

Present value of accrued benefits, 10/1/2005	
Active participants	\$ 33,893,000
Inactive participants with vested deferred benefits	1,565,000
Participants in pay status	<u>47,711,000</u>
Total pension benefit obligation	83,169,000
Market value of assets	<u>41,965,000</u>
Unfunded benefit obligation	<u>\$ 41,204,000</u>
Funded Ratio as of 10/1/2005 (ratio of assets to liabilities)	<u>50.46%</u>

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

Notes to Financial Statements  
September 30, 2007 and 2006

(9) Commitment and Contingencies

Encumbrances

PCC reserves its fund balance for internal purposes, for those portions legally segregated for specific future use. At September 30, 2007 and 2006, the reserve for encumbrances was \$158,629 and \$130,611, respectively, within the unrestricted fund.

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, 2007 and 2006 was \$1,137,636 and \$951,236, 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.

(10) Reclassifications

Certain reclassifications have been made to fiscal year 2006 amounts in order to conform to the fiscal year 2007 presentation.

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

---

**SINGLE AUDIT REPORTS**

---

**Year Ended September 30, 2007**

J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

Saipan Office:  
P.O. Box 297 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:  
PIDC Apartment II  
P.O. Box 1266, Koror, PW 96940  
Tel. No. (680) 488-8615  
Fax No. (680) 488-8616

**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 Palau Community College (PCC) as of and for the year ended September 30, 2007, and have issued my report thereon dated March 10, 2008. 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 as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PCC's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of PCC's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects PCC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of PCC's financial statements that is more than inconsequential will not be prevented or detected by PCC's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by PCC's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

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, contracts, and grant agreements, 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 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 Magliani & Company*  
Koror, Republic of Palau  
March 10, 2008

J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

Saipan Office:  
P.O. Box 297 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:  
PIDC Apartment II  
P.O. Box 1266, Koror, PW 96940  
Tel. No. (680) 488-8615  
Fax No. (680) 488-8616

**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 Palau Community College (PCC) with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2007. PCC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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 of 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, 2007.

Internal Control Over Compliance

The management of PCC is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the PCC's internal control over compliance.

A *control deficiency* in PCC's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects PCC's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by PCC's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by PCC's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended for the information and use 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.

*J. Scott Magliani & Company*  
Koror, Republic of Palau  
March 10, 2008

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

Introduction to Federal Award Programs  
Year Ended September 30, 2007

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, 2007, PCC received from the U.S. Department of the Interior through the Republic of Palau National Government, 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**  
(A Component Unit of the Republic of Palau)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended 30, 2007

Federal Grantor/Pass- Through Grantor's Program Title	CFDA Number	Program or Award Amount	Receivable from Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable from Grantor (Deferred Revenue) at September 30, 2007
<u>U.S. Department of Education</u>						
<u>Direct Programs</u>						
Student Financial Aid Programs:						
Supplemental Educational						
Opportunity Grant	84.007	\$ 126,611	\$ 47,999	\$ 94,174	\$ 74,243	\$ 28,068
Federal Work-Study	84.033	127,850	1,771	116,299	131,017	16,489
Pell Grant	84.063	1,995,968	1,369,126	2,500,000	2,096,847	965,973
Sub-total Student Financial Aid Programs		2,250,429	1,418,896	2,710,473	2,302,107	1,010,530
Student Support Services Program	84.042A	244,735	14,903	213,855	209,807	10,855
Upward Bound Program	84.047A	379,496	30,996	350,947	357,646	37,695
Upward Bound Math and Science	84.047M	220,000	18,024	195,117	191,705	14,612
Minority Science	84.120A	215,324	28,232	1,564	-	26,668
Talent Search	84.044A	220,000	22,955	200,256	188,243	10,942
Sub-total U.S. Department of Education		3,529,984	1,534,006	3,672,212	3,249,508	1,111,302
<u>U.S. Department of Health and Human Services</u>						
Basic/Core Area Health and Education Center	93.824	165,000	207,367	198,463	158,820	167,724
<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	6,466	6,610	423	279
<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						
OMIP-ROP-2004-1	GR470067	100,000	-	26,819	26,819	-
OMIP-ROP-2006-1		100,000	4,743	29,211	46,179	21,711
PALD/Palau-113	GR370030	36,500	30,208	36,500	6,292	-
Sub-total U.S. Department of the Interior		2,236,500	34,951	2,092,530	2,079,290	21,711
Total Federal Programs		\$ 6,094,030	\$ 1,781,029	\$ 5,969,815	\$ 5,488,041	\$ 1,299,255

See accompanying notes to financial statements.

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

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2007

(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, 2007

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes   x   no
  
- Significant deficiency(ies) 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 control over major programs

- Material weakness(es) identified? \_\_\_\_\_ yes   x   no
  
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes   x   none reported

Type of auditor’s report issued on compliance for major federal programs:

Unqualified

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, 2007

**SECTION I – SUMMARY OF AUDITOR’S RESULTS, Continued**

Federal Programs

Identification of major programs:

<u>CFDA Number</u>	<u>Description</u>	<u>Federal Expenditures</u>
84.007, 84.033, 84.063	Student Financial Aid Cluster	\$ 2,302,107
84.042A, 84.044A, 84.047A, 84.047M	TRIO Cluster	947,401
15.875	Compact Section 221(b)	<u>2,000,000</u>
	Total major programs expenditures	<u>\$ 5,249,508</u>
	Total federal expenditures	<u>\$ 5,488,041</u>
	Total Tested	<u>95%</u>

Threshold used to distinguish between  
Type A and Type B program: \$ 300,000

Auditee qualified as a low risk auditee?   x   yes        no

**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.

**SECTION III – Findings and Questioned Costs relating to Federal Awards**

There were no reportable conditions.

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

---

**STATISTICAL SECTION**

---

**Year Ended September 30, 2007**

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

NET ASSETS  
Last Five Fiscal Years Ending September 30

	2007	2006	2005	2004	2003
Invested in capital assets	\$ 1,100,177	\$ 1,545,818	\$ 1,830,654	\$ 2,217,515	\$ 2,496,517
Restricted	2,083,494	1,770,933	1,071,376	510,744	500,321
Unrestricted	2,818,501	2,439,443	2,502,533	1,530,054	836,616
Total Net Assets	\$ 6,002,172	\$ 5,756,194	\$ 5,404,563	\$ 4,258,313	\$ 3,833,454

**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 Ending September 30

	2007	2006	2005	2004	2003
<b>Operating revenues</b>					
Tuition and fees	\$ 1,418,565	\$ 1,795,846	\$ 1,703,396	\$ 1,296,254	\$ 1,316,459
Federal grants	3,061,096	3,595,841	3,281,304	4,225,650	4,536,804
Auxiliary enterprise sales and charges	942,815	743,696	660,850	652,148	704,251
Other grants	326,641	390,678	819,287	326,760	362,172
Other operating revenues	294,856	73,803	86,795	100,117	132,831
<b>Total operating revenues</b>	<b>6,043,973</b>	<b>6,599,864</b>	<b>6,551,632</b>	<b>6,600,929</b>	<b>7,052,517</b>
<b>Operating expenses</b>					
Student aid	1,993,121	2,268,970	2,090,121	2,408,722	2,997,163
Instruction	1,979,078	2,069,384	2,118,718	2,609,079	2,262,913
Administration	1,074,526	1,048,741	974,203	966,061	526,117
Student services	925,330	929,488	850,391	836,517	821,240
Operations and maintenance	800,409	912,483	641,418	560,516	606,472
Academic support	299,266	373,039	336,076	264,812	232,700
Special project	-	-	395,628	-	-
Auxiliary enterprises	690,217	727,383	533,816	715,288	734,244
Depreciation	597,467	583,634	573,556	529,223	619,213
<b>Total operating expenses</b>	<b>8,359,414</b>	<b>8,913,122</b>	<b>8,513,927</b>	<b>8,890,218</b>	<b>8,800,062</b>
<b>Operating loss</b>	<b>(2,315,441)</b>	<b>(2,313,258)</b>	<b>(1,962,295)</b>	<b>(2,289,289)</b>	<b>(1,747,545)</b>
<b>Non-operating revenues</b>					
Republic of Palau appropriations	2,385,000	2,385,000	2,385,000	2,415,000	2,345,000
Investment income earned	176,419	279,889	723,545	299,148	36,662
<b>Total non-operating revenues</b>	<b>2,561,419</b>	<b>2,664,889</b>	<b>3,108,545</b>	<b>2,714,148</b>	<b>2,381,662</b>
<b>Change in net assets</b>	<b>\$ 245,978</b>	<b>\$ 351,631</b>	<b>\$ 1,146,250</b>	<b>\$ 424,859</b>	<b>\$ 634,117</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. 34 and 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 Ending September 30

Function	2007	2006	2005	2004	2003
ROP Appropriations	\$ 2,385,000	\$ 2,385,000	\$ 2,385,000	\$ 2,415,000	\$ 2,345,000
U.S. Federal Grants	3,061,096	3,595,841	3,281,304	4,225,650	4,536,804
Tuition and Fees	1,418,565	1,703,768	1,703,396	1,296,254	1,316,459
Investment Income	176,419	371,967	723,545	299,148	36,662
Auxiliary Service Income	942,815	743,696	660,850	652,148	704,251
Other Grants	326,641	390,678	819,287	326,760	362,172
Other Operating Revenues	294,856	73,803	86,795	100,117	132,831
<b>Total Revenues</b>	<b>\$ 8,605,392</b>	<b>\$ 9,264,753</b>	<b>\$ 9,660,177</b>	<b>\$ 9,315,077</b>	<b>\$ 9,434,179</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 Ending September 30

Function	2007	2006	2005	2004	2003
Student Aid	\$1,993,121	\$ 2,268,970	\$ 2,090,121	\$ 2,408,722	\$ 2,997,163
Instruction	1,979,078	2,069,384	2,118,718	2,609,079	2,262,913
Administration	1,074,526	1,048,741	974,203	966,061	526,117
Student Services	925,330	929,488	850,391	836,517	821,240
Operations and Maintenance	800,409	912,483	641,418	560,516	606,472
Academic Support	299,266	373,039	336,076	264,812	232,700
Special Project	-	-	395,628	-	-
Auxiliary Enterprises	690,217	727,383	533,816	715,288	734,244
Depreciation	597,467	583,634	573,556	529,223	619,213
<b>Total Expenditures</b>	<b>\$8,359,414</b>	<b>\$ 8,913,122</b>	<b>\$ 8,513,927</b>	<b>\$ 8,890,218</b>	<b>\$ 8,800,062</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)

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

Fiscal Year	Employees				Total Employees
	Regular Faculty	Associate Faculty	Regular Staff	Par-time/ Temp. Staff	
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	83	49	168
2007	22	18	77	55	172

**Source:** PCC Human Resource Records.

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

TUITION RATES AND ENROLLMENT STATISTICS  
Last Ten Fiscal Years Ending 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	4,610	1,571	3,039
2007	\$70	6,969	1,570	5,399

**Source:** PCC Records

**Note (1):** Full Time Student Equivalent (FTSE) is 12 Credit Hours per Semester.

**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 AND DEMOGRAPHIC STATISTICS**  
Last Ten Fiscal Years Ending September 30  
Unaudited

Fall Semester Fiscal Year	Attendance		Gender		Residency		AGE	
	Full Time	Part Time	Male	Female	IN Campus	OFF Campus	Median	Mean
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
2007	66.2%	33.8%	40.1%	59.9%	14.9%	85.1%	20	22

Fall Semester Fiscal Year	Nationality						
	Palau	Yap	Ponpei	Chuuk	Marshalls	Kosrae	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%
2007	73.2%	10.8%	3.1%	3.4%	2.3%	3.5%	3.7%

Source: PCC records

Note (1): Others consist of Taiwan, Korea, China, Japan, Philippines and Bangladesh.