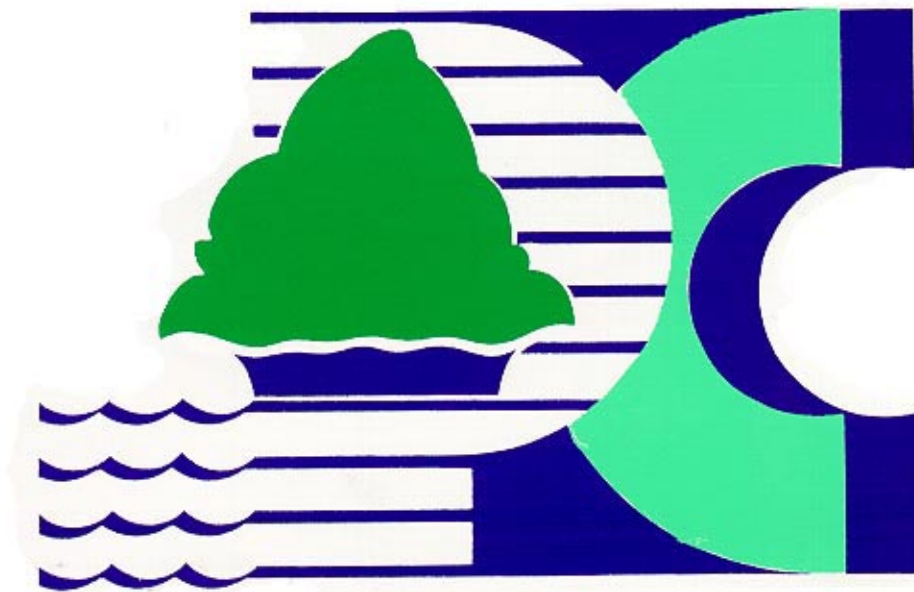


PALAU COMMUNITY COLLEGE
(A Component Unit of the Republic of Palau)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Year Ended September 30, 2013



PALAU
COMMUNITY
COLLEGE

PALAU COMMUNITY COLLEGE

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended September 30, 2013

Prepared by:
Administration & Finance Department

Jay Olegeriil
Vice President for Administration & Finance

Uroi Salii
Director of Finance

Debbie O. Ngiraibai
Accountant/Business Supervisor

P.O. Box 9
Koror, Palau 96940

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS
September 30, 2013 and 2012

<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	1-3
Management's Discussion and Analysis (required supplementary information)	4-11
Statements of Net Position	12
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows	14-15
Statements of Revenues, Expenses, and Changes in Net Position – Budget and Actual (GAAP Basis)	16
Notes to Financial Statements	17-39
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 <i>Government Auditing Standards</i>	40-41
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	42-43
Introduction to Federal Award Programs	44
Schedule of Expenditures of Federal Awards	45
Notes to Schedule of Expenditures of Federal Awards	46
Schedule of Findings and Questioned Costs	
Summary of Auditor's Results	47-48
Findings relating to the Financial Statements which are required to be reported in accordance with <i>Government Auditing Standards</i>	48
Findings and Questioned Costs relating to Federal Awards	48

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS
September 30, 2013 and 2012

<u>ITEM(s)</u>	<u>PAGE(s)</u>
IV. PRIOR AUDIT FINDINGS AND QUESTIONED COSTS	48
V. STATISTICAL SECTION	
Average Number of Employees	49
Tuition Rates and Enrollment Statistics	50
Student Enrollment and Demographic Statistics	51

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

INTRODUCTORY SECTION

For The Year Ended September 30, 2013



P.O. Box 9, Koror
Republic of Palau
PW 96940
Tel: (680) 488-2470
Fax: (680) 488-2447

Accredited by
WESTERN ASSOCIATION
OF
SCHOOLS AND COLLEGES

May 30, 2014

Ladies and Gentlemen of the Board:

I am pleased to submit to you and leadership of the Republic of Palau the College's Comprehensive Annual Financial Report for fiscal year 2013. This document presents the record of Palau Community College's financial operations for the year ended September 30, 2013.

As detailed in the financial statements within the report, the College continues to manage its funds with diligence and prudent practices.

The College has been able to continue to move forward with facilities maintenance and upkeep and improvement as a result of stable student enrollment. We are also continuing moving forward with steps to build the Health/Science building that will also increase the number of classrooms.

As always, 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) for providing the College with much needed financial support every year. 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.

Sincerely,

Patrick U. Tellei, EdD
President



P.O. Box 9, Koror
Republic of Palau
PW 96940
Tel: (680) 488-2470
Fax: (680) 488-2447

Accredited by
WESTERN ASSOCIATION
OF
SCHOOLS AND COLLEGES

May 30, 2014

To : President Tellei and
 Members of the Board of Trustees

The Comprehensive Annual Financial Report of Palau Community College for the fiscal year ended September 30, 2013 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 4 through 11), which focuses on current activities, accounting changes, and currently known facts.

The College's financial statements, as a component unit of the Republic of Palau, are prepared in accordance with GASB 34. 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

PCC's vision is to guarantee quality and excellence, and its 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 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 ended September 30, 2013, the College received and administered several grants from the U.S. Federal Government and these include Student Aids (Pell Grant), Asian American and Native American Pacific Islander Serving Institution (AANAPISI), Upward Bound, Talent Search Program and Area Health Education Center (AHEC), and Maintenance

Assistance Program (MAP). These programs were audited and their financial reports are contained in the financial section of this report.

The College also housed several programs that provide services to the general public and the college community. These programs include: Palau Wind Orchestra; Workforce Investment Act (WIA); Child Care; Community Advocacy Program; Health Clinic, and Health Resource Center.

MAJOR INITIATIVES

Following a comprehensive institutional planning process, the College continues implementation of its Fifteen-Year Institutional Master Plan with four strategic directions designed to shape departmental, programmatic, and individual action agendas for the future of the College. These strategic directions are briefly discussed below:

Strategic Direction 1: Student Success

PCC will intensify its effort to enhance existing programs and services, as well as develop new ones, all in an effort to improve student success.

Strategic Direction 2: Institutional Culture

The institutional culture of PCC will be one that embraces planned changes to continually improve and links the mission and vision in guaranteeing quality and excellence.

Strategic Direction 3: Resources

The College will diversify and increase resources to provide quality programs and services, facilities, technology, and human resources to support its vision, mission and goals. The College will be prudent in the allocation of resources to support operations and in support of its short, medium and long range plans in line with the strategic directions and mission of the College.

Strategic Direction 4: Culture of Evidence

The College will provide data driven assessment which generates accurate and reliable information, identify specific evidence of its efforts in strategic areas, analyze that evidence, and use its findings to make planning and resource allocation decisions as the basis for continuous improvement.

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, prevent 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 (i.e., the level at which expenditures cannot exceed the appropriated amount) is established for each individual fund. The College does not practice encumbrance 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 to be 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 ten years:

<u>Enrollment</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Enrollment Full Time	1,892	1,816	1,824	1,816	1,569	1,597	1,570	1,571	1,710	1,634
Continuing Education and Other Training	<u>1,528</u>	<u>4,214</u>	<u>7,171</u>	<u>7,036</u>	<u>5,827</u>	<u>4,430</u>	<u>5,399</u>	<u>3,039</u>	<u>3,089</u>	<u>1,877</u>
Total*	<u>3,420</u>	<u>6,030</u>	<u>8,995</u>	<u>8,852</u>	<u>7,396</u>	<u>6,027</u>	<u>6,969</u>	<u>4,610</u>	<u>4,799</u>	<u>3,511</u>

*Total enrollment, continuing education and specialized training enrollment included CRE and 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 the 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.

For the fiscal year ended September 30, 2013, the College's investments from current funds generated net investment income of \$360,029 from endowment fund investments. The College invests endowment fund in Money Market funds managed by Morgan Stanley Smith Barney.

RISK MANAGEMENT

In fiscal year 2013, College paid approximately \$5,406 for Worker's Compensation and \$4,730 for General Liabilities insurance coverage as protection against risks. The College also paid \$8,323 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.

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 National Earth Day Activities, Olechotel Belau Fair, 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 International Coral Reef Center, Palau National Scholarship Board, and Financial Institutions Commission. 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,



Jay Olegeriil
Vice President of Administration & Finance

PALAU COMMUNITY COLLEGE

PRINCIPAL OFFICIALS

Year ended September 30, 2013

BOARD OF TRUSTEES

Mr. Masa-Aki N. Emesiochl	Acting Chairperson
Rev. Billy G. Kuartei	Member
Ms. Lisa Abraham	Member
Dr. Emais Robert	Trustee
Mr. Jemmy Belelai	Trustee
Ms. Summer Saunders	Student Trustee

OFFICERS OF THE COLLEGE

Dr. Patrick U. Tellei, EdD	President
Mr. Jay Olegeriil	Vice President for Administration and Finance
Mr. Thomas Taro	Vice President for Cooperative Research & Extension
Ms. Robert Ramarui	Dean of Academic Affairs
Mr. William O. Wally	Dean of Continuing Education
Mrs. Sherman Daniel	Dean of Students
Dr. Isebong Asang	Faculty Senate President
Ms. Lesley B. Adachi	Classified Staff Organization President
Mr. Kornelia Thomas	Associated Students of PCC President

OFFICIALS ISSUING REPORT

Mr. Jay Olegeriil	Vice President for Administration and Finance
Ms. Uroi Salii	Director of Finance
Ms. Debbie Ngiraibai	Accounting Supervisor

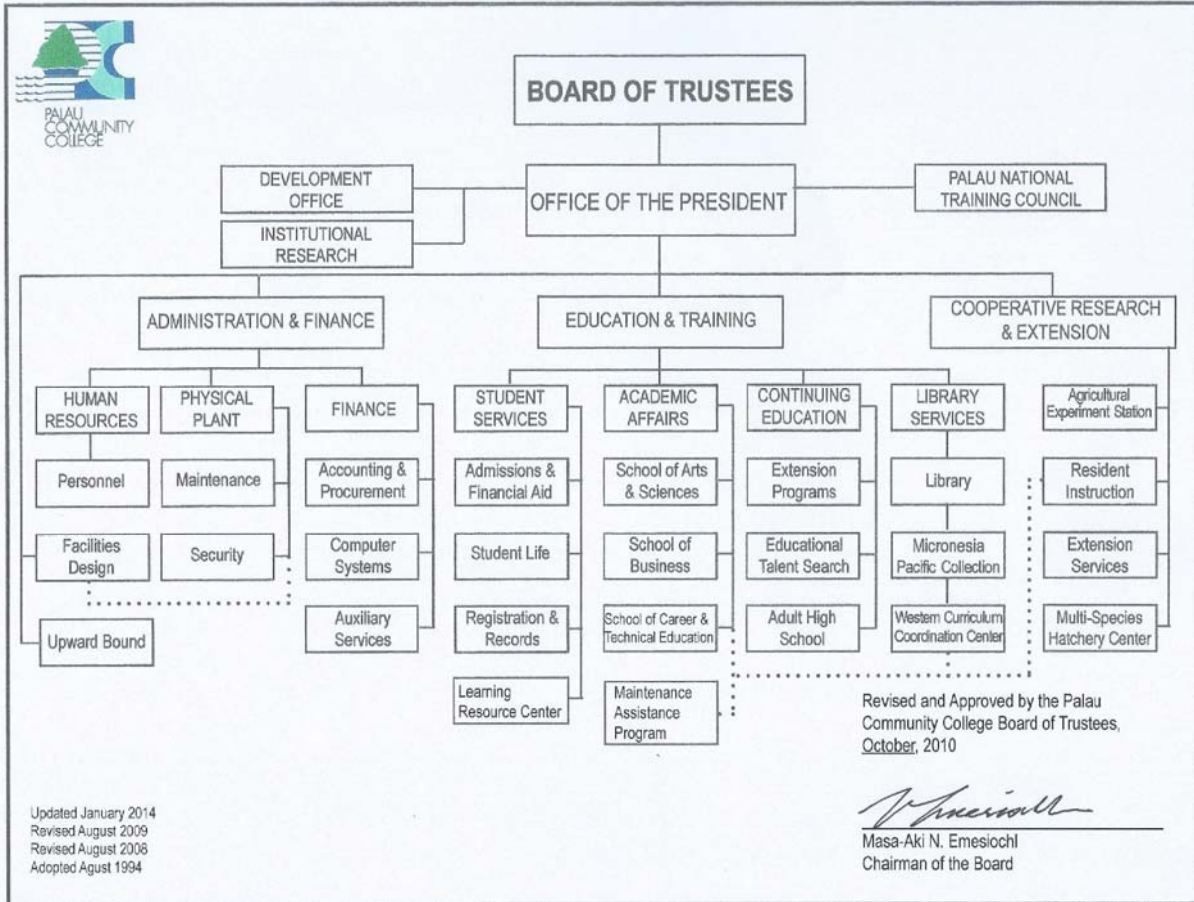
DIVISION ISSUING REPORT

Finance

PALAU COMMUNITY COLLEGE

ORGANIZATION CHART

Year ended September 30, 2013



Updated January 2014
 Revised August 2009
 Revised August 2008
 Adopted August 1994

Revised and Approved by the Palau Community College Board of Trustees, October, 2010

Masa-Aki N. Emesioch
 Masa-Aki N. Emesioch
 Chairman of the Board

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

FINANCIAL SECTION

For The Years Ended September 30, 2013 and 2012

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

September 30, 2013 and 2012



CERTIFIED PUBLIC ACCOUNTANT

SAIPAN

Family Building, Suite 201
PMB 297 Box 10000
Saipan, MP 96950
Tel Nos. (670) 233-1837/0456
Fax No. (670) 233-8214

GUAM

Reflection Center, Suite 207
P.O. Box 12734
Tamuning, GU 96931
Tel Nos. (671) 472-2680/2687
Fax No. (671) 472-2686

PALAU

PIDC Apartment No. 11
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:

Report on the Financial Statements

I have audited the accompanying basic financial statements of Palau Community College (PCC), a component unit of the Republic of Palau (ROP), which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a reasonable basis for my opinion.

Opinion

In my opinion, the financial statements referred above present fairly, in all material respects, the financial position of PCC as of September 30, 2013 and 2012, the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audits were conducted for the purpose of forming an opinion on PCC's basic financial statements as a whole. The introductory section on pages I through XI and statistical section on pages 49 through 51 are presented for purposes of additional analysis and are not required part of the financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on them.

The accompanying Schedule of Expenditures of Federal Awards on page 45 is presented for purposes of additional analysis 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 and is derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated May 30, 2014 on my consideration of the PCC's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal controls over financial reporting and compliance and the results of that 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 considered in assessing the results of my audit.

A handwritten signature in black ink that reads "J. Scott Magliari & Company". The signature is written in a cursive style with a large, stylized initial "J".

Koror, Republic of Palau
May 30, 2014

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

Management's Discussion and Analysis
September 30, 2013

Management's Discussion and Analysis

This section of Palau Community College's Comprehensive Annual Financial Report presents management's discussion and analysis of the College's financial activity during the fiscal year ended September 30, 2013. 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), and the College's financial statements and footnotes (pages 12 through 39). This overview is required by the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements-and-Management's Discussion and Analysis-for Public Colleges and Universities*, as amended by GASB Statement Nos. 37 and 38. Responsibility for the completeness and fairness of this information rests with the College.

Financial Highlights

The College's assets totaled \$9.9 million at September 30, 2013. This balance reflects a \$.7 million or 8% increase from the 2012 fiscal year. The increase is primarily due to the increase in the carrying values of the College's endowment fund investments.

The College's total liabilities at September 30, 2013 totaled \$2.5 million. This balance decreased by \$.8 million or 24% from \$3.3 million in 2012. The decrease is due to decrease in accounts payable and unearned revenues.

The College's net position at September 30, 2013 totaled to \$7.3 million from \$5.8 million in fiscal year 2012. The \$1.5 million increase is primarily due to increased value of endowment and appropriation grants. This was also due to the College's efforts to reduce costs and strong financial planning to ensure its objectives and goals for the establishment of the management information data base system and infrastructure improvement of the College.

Using This Annual Report

The College's financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Position 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 Position focus 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.

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

Management's Discussion and Analysis
September 30, 2013

Overview of Financial Statements

The Financial Section of this report presents the College's financial statements as two components: basic financial statements and notes to the financial statements.

Basic Financial Statements

The *Statement of Net Position* reflects the financial position of the College as of September 30, 2013. It shows the assets owned or controlled, related liabilities and other obligations, and the categories of net position. Net Position is an accounting concept defined as total assets and deferred outflows of the resources, less total liabilities and deferred inflows of resources. The College has no deferred outflows of the resources and deferred inflows of resources, and as such, the College institutional equity or ownership in its total assets consisted of total assets less total liabilities with difference between them presented as net position.

The *Statement of Revenues, Expenses, and Changes in Net Position* reflects the results of operations and other changes for the year ended September 30, 2013. It shows revenues and expenses, both operating and non-operating, reconciling the beginning net position amount to the ending net position amount, which is shown on the Statement of Net Position described above.

The *Statement of Cash Flows* reflects the inflows and outflows of cash for the year ended September 30, 2013. It shows the cash activities by type, reconciling the beginning cash amount to the ending cash amount, which is shown on the Statement of Net Position, described above. In addition, this Statement reconciles cash flows from operating activities to operating loss on the *Statement of Revenues, Expenses, and Changes in Net Position* described above.

The *Statement of Revenues, Expenses, and Changes in Net Position-Budget and Actual (GAAP-Basis)* reflects the budgetary comparison to actual results of operations and other changes for the year ended September 30, 2013. A budgetary comparison statement for the general and federal funds is considered to be part of the basic financial statements. PCC adopts annual appropriated budgets for its general and federal funds. Budgetary comparison schedule has been provided for these funds to demonstrate compliance with the budgets.

Notes to the Financial Statements

Various notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are found immediately following the financial statements to which they refer.

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

Management's Discussion and Analysis
September 30, 2013

Overview of Financial Statements, Continued

Financial Analysis of the College as a Whole
Net Position
As of September 30, 2013, 2012, and 2011

	2013	2012	2011
ASSETS			
Current assets			
Cash	\$ 944,333	\$ 475,487	\$ 678,914
Accounts receivable, net	2,832,585	3,490,706	2,081,261
Appropriations receivable	536,180	659,551	394,737
Inventory	279,654	328,685	218,816
Deposit	-	-	28,283
Total current assets	4,592,752	4,954,429	3,402,011
Noncurrent assets			
Restricted cash	806,986	276,599	74,535
Endowment investments	3,139,341	2,490,000	1,911,000
Capital assets, net	1,355,880	1,470,161	1,498,640
Total noncurrent assets	5,302,207	4,236,760	3,484,175
TOTAL ASSETS	\$ 9,894,959	\$ 9,191,189	\$ 6,886,186
LIABILITIES			
Current liabilities			
Accounts payable	\$ 1,726,775	\$ 1,982,437	\$ 722,475
Accrued liabilities	322,594	319,147	218,464
Unearned revenues	372,136	893,157	1,021,012
Compensated absences, current portion	125,846	126,553	106,644
Total current liabilities	2,547,351	3,321,294	2,068,595
Noncurrent liabilities			
Compensated absences, net of current portion	35,495	40,266	47,912
TOTAL LIABILITIES	2,582,846	3,361,560	2,116,507
NET POSITION			
Net investments in capital assets	1,355,880	1,470,161	1,498,640
Restricted			
Expendable	726,455	253,370	37,824
Nonexpendable	3,152,031	2,513,229	2,037,870
Unrestricted	2,077,747	1,592,869	1,195,345
TOTAL NET POSITION	\$ 7,312,113	\$ 5,829,629	\$ 4,769,679

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

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

Management's Discussion and Analysis
September 30, 2013

Overview of Financial Statements, Continued

Total net position in fiscal year 2013 increased to \$7.3 million from \$5.8 million in fiscal year 2012. Endowment investments increased in fiscal year 2013 to \$3.1 million from \$2.5 million in fiscal year 2012.

Current liabilities decreased from \$3.3 million in 2012 to \$2.5 million in fiscal year 2013 attributed to decrease in unearned revenue.

Revenues
For the Years Ended
September 30, 2013, 2012, and 2011

	2013	2012	2011
Operating revenues:			
U.S. Federal grants	\$ 4,509,834	\$ 4,429,211	\$ 4,553,082
Tuition and fees, net	351,245	200,021	122,996
Other grants	1,201,726	1,206,117	1,297,579
Auxiliary enterprise sale and charges	87,549	91,668	126,525
Other	316,993	209,124	129,616
Total operating revenues, net	6,467,347	6,136,141	6,229,798
Non-operating revenues (expenses):			
Republic of Palau appropriations	2,411,000	2,631,200	2,129,401
Investment income (loss), net	360,029	323,454	(39,335)
Loss on disposal of capital assets	-	(22,663)	-
Total non-operating revenues	2,771,029	2,931,991	2,090,066
Total Revenues	\$ 9,238,376	\$ 9,068,132	\$ 8,319,864

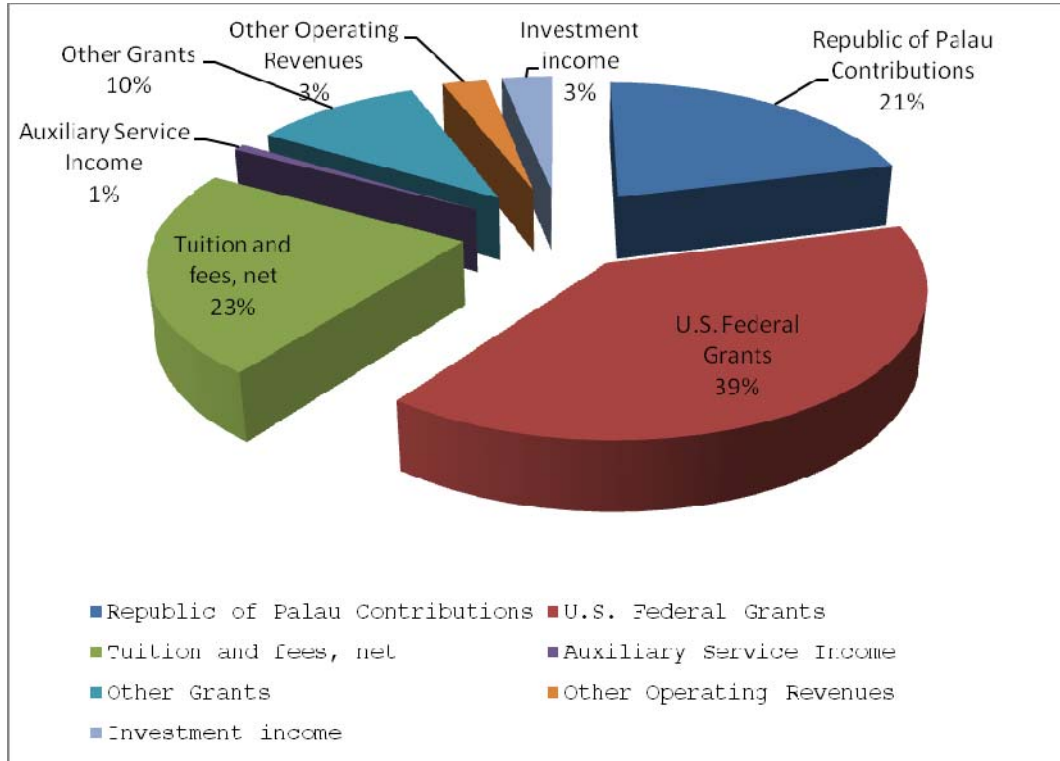
The schedule indicates total operating and non-operating revenues realized by the College in fiscal year 2013 of \$9.2 million. The largest portion of revenues (\$4.5 million) was contributed by the U.S. Federal Government through grants. Approximately \$2.4 million was contributed by the Olbiil Era Kelulau (Palau National Congress). The following chart exhibits the breakdown of revenues for Palau Community College in fiscal year 2013:

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

Management's Discussion and Analysis
September 30, 2013

Overview of Financial Statements, Continued

**Revenues Breakdown
For The Year Ended September 30, 2013**



**Operating Expenses
For The Years Ended September 30, 2013, 2012, and
2011**

	2013	2012	2011
Expenditures and mandatory transfers			
Educational and general			
Student aid	\$ 1,009,627	\$ 958,291	\$ 1,137,284
Instructional	1,826,558	2,042,243	2,259,942
Administration	1,738,236	1,967,588	1,841,822
Student services	1,063,690	1,046,248	832,785
Operations and maintenance	810,408	810,168	744,774
Academic support	315,935	365,874	505,371
Depreciation	302,181	296,690	304,101
Total educational and general expenditures	7,066,635	7,487,102	7,626,079
Mandatory transfers			
Auxiliary enterprises expenditures	689,257	521,080	449,822
Total expenditures and mandatory transfers	\$ 7,755,892	\$ 8,008,182	\$ 8,075,901

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

Management's Discussion and Analysis
September 30, 2013

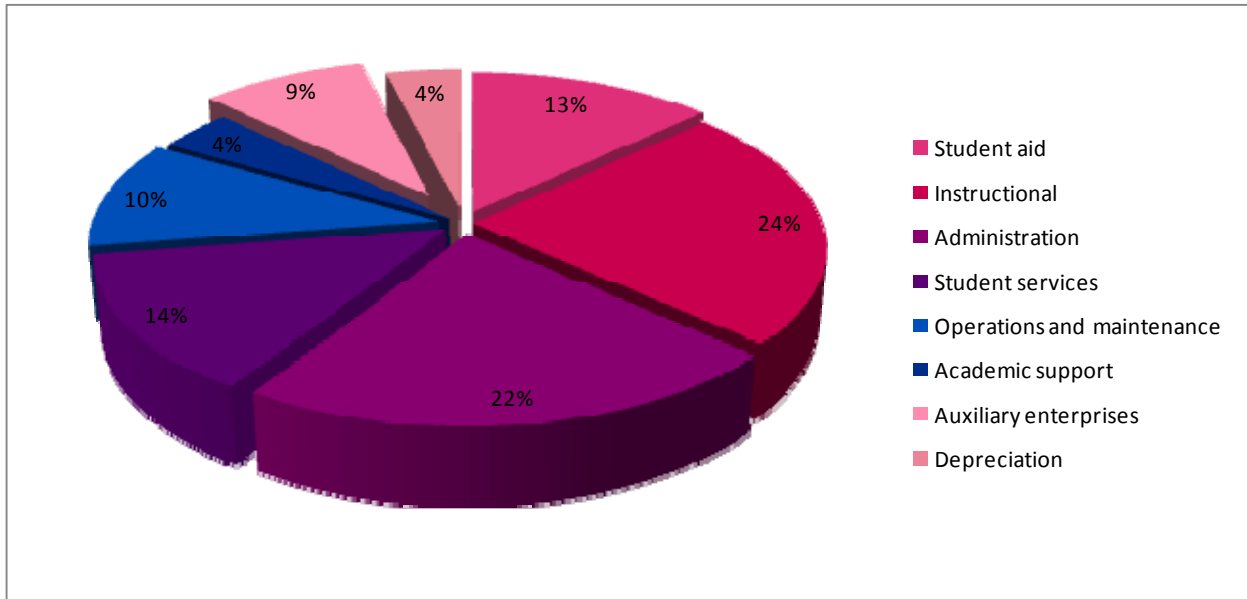
Overview of Financial Statements, Continued

GASB Statement No. 35 gives financial reporting entities the choice of reporting operating expenses. The College has chosen to report the expenses in their functional classification on the Statement of Revenues, Expenses, and Changes in Net Position and has displayed the natural classification in the notes to financial statements.

The above schedule shows the total operating expenses of \$7.8 million in fiscal year 2013. Total operating expenses in fiscal year 2013 decreased by \$252,290 or 3% compared to prior year. The following significant changes over prior year by function were caused by the following:

- Instructional function decreased by \$215,685 or 11% is mainly attributed by the termination of Upward Bound Math and Science program services.
- Administration expenses decreased by \$229,352 or 12% over prior year principally attributed by the decreased funding from ROP appropriations, therefore, administration expenses tighten to fit the funding level.
- Auxiliary enterprises expenses increased by \$168,177 or 32% over prior year principally due to increased accommodations of students from Freely Associated States.

**Expenses Breakdown
For The Year Ended September 30, 2013**



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

Management's Discussion and Analysis
September 30, 2013

Overview of Financial Statements, Continued

Changes in Net Position
For The Years Ended September 30, 2013, 2012, and 2011

	2013	2012	2011
Net position, beginning of the year	\$ 5,829,629	\$ 4,769,679	\$ 4,525,716
Change in net position	1,482,484	1,059,950	243,963
Net position, end of the year	\$ 7,312,113	\$ 5,829,629	\$ 4,769,679

Net position increased by \$1,482,484 or 25% primarily due to investment income from endowment fund investment and other financing resources.

CAPITAL ASSETS

At September 30, 2013, the College had \$8.9 million in capital assets, less accumulated depreciation of \$7.5 million, for net capital assets of \$1.4 million. The current year additions of \$187,900 in capital assets were mainly equipment and new computer systems for various functional divisions. Depreciation charges for the current fiscal year totaled \$0.3 million.

The following table summarizes the College's capital assets for the fiscal year 2013:

	Balance at 09/30/12	Additions	Transfers/ Deletions	Balance at 09/30/13
Buildings and improvements	\$ 7,485,657	\$ -	\$ -	\$ 7,485,657
Furniture, vehicles and equipment	1,181,206	187,900	-	1,369,106
Total depreciable assets	8,666,863	187,900	-	8,854,763
Accumulated depreciation	(7,196,702)	(302,181)	-	(7,498,883)
Capital assets, net	\$ 1,470,161	\$ (114,281)	\$ -	\$ 1,355,880

Additional information on the College's capital assets can be found in Notes 1 and 6 of the accompanying financial statements.

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

Management's Discussion and Analysis
September 30, 2013

Economic Factors that will Affect the Future

The economic condition of Palau Community College continues to be directly tied to that of the Republic of Palau (Government). For the past twenty years, the National government has provided basically level funding to the College. That fact, and other factors like the continued possibility of declining revenues may be cause for the College Board of Trustees to consider further increase in tuition and fees to meet the ever-increasing cost of providing higher education programs and services.

The goal of ensuring a diverse student population continues to be pursued aggressively by the College through provision of travel grants to accepted students from neighboring islands. This effort also aims to increase student population. Annual fund raising efforts to boost the PCC Endowment Fund will continue, with the ultimate goal of reaching the \$30 million goal. At the time that the endowment reaches the \$10 million mark, PCC will then begin to use interest earned to support programs and services. At the same time, efforts continue to build the fund through active recruitment of new bi-weekly allotments as well as solicitations for direct donations.

Again, it is anticipated that the College's appropriation from the National government for fiscal year 2014 will continue to be at level funding. Therefore, the College will need to secure additional funding in subsequent years to ensure that its 15-year institutional master plan goals and objectives are adequately supported.

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 Position
September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 944,333	\$ 475,487
Accounts receivable, net	2,832,585	3,490,706
Appropriations receivable	536,180	659,551
Inventory	<u>279,654</u>	<u>328,685</u>
Total current assets	<u>4,592,752</u>	<u>4,954,429</u>
Noncurrent assets:		
Restricted cash	806,986	276,599
Endowment investments	3,139,341	2,490,000
Capital assets, net	<u>1,355,880</u>	<u>1,470,161</u>
Total noncurrent assets	<u>5,302,207</u>	<u>4,236,760</u>
Total Assets	<u>\$ 9,894,959</u>	<u>\$ 9,191,189</u>
<u>Liabilities and Net Position</u>		
<u>Liabilities:</u>		
Current liabilities:		
Accounts payable	\$ 1,726,775	\$ 1,982,437
Accrued liabilities and benefit payable	322,594	319,147
Unearned revenues	372,136	893,157
Compensated absences, current portion	<u>125,846</u>	<u>126,553</u>
Total current liabilities	<u>2,547,351</u>	<u>3,321,294</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	<u>35,495</u>	<u>40,266</u>
Total liabilities	<u>2,582,846</u>	<u>3,361,560</u>
Commitments and Contingencies		
Net Position:		
Net investments in capital assets	1,355,880	1,470,161
Restricted:		
Expendable	726,455	253,370
Nonexpendable	3,152,031	2,513,229
Unrestricted	<u>2,077,747</u>	<u>1,592,869</u>
Total net position	<u>7,312,113</u>	<u>5,829,629</u>
Total Liabilities and Net Position	<u>\$ 9,894,959</u>	<u>\$ 9,191,189</u>

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 Position
For the Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Federal grants	\$ 4,509,834	\$ 4,429,211
Tuition and fees (net of scholarship discount and allowances of \$2,266,060 and \$2,479,846 in 2013 and 2012, respectively)	351,245	200,021
Other grants	1,201,726	1,206,117
Auxiliary enterprise sales and charges	87,549	91,668
Other operating revenues	<u>316,993</u>	<u>209,124</u>
 Total operating revenues	 <u>6,467,347</u>	 <u>6,136,141</u>
Operating expenses:		
Education and general:		
Student aid	1,009,627	958,291
Instructional	1,826,558	2,042,243
Administration	1,738,236	1,967,588
Student services	1,063,690	1,046,248
Operations and maintenance	810,408	810,168
Auxiliary enterprises	689,257	521,080
Academic support	315,935	365,874
Depreciation	<u>302,181</u>	<u>296,690</u>
 Total operating expenses	 <u>7,755,892</u>	 <u>8,008,182</u>
Operating loss	<u>(1,288,545)</u>	<u>(1,872,041)</u>
Non-operating revenues (expenses):		
Republic of Palau appropriations	2,411,000	2,631,200
Investment income, net	360,029	323,454
Loss on disposal of capital assets	<u>-</u>	<u>(22,663)</u>
 Total non-operating revenues, net	 <u>2,771,029</u>	 <u>2,931,991</u>
Change in net position	1,482,484	1,059,950
Net position, beginning of year	<u>5,829,629</u>	<u>4,769,679</u>
Net position, end of year	<u>\$ 7,312,113</u>	<u>\$ 5,829,629</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from students for tuition and fees	\$ 733,292	\$ 141,566
Cash received from auxiliary activities	87,549	91,668
Cash received from federal grants	4,269,260	3,719,598
Cash received from other grants	1,514,345	1,490,681
Cash paid to employees	(3,877,041)	(3,962,576)
Cash paid to suppliers	<u>(3,785,331)</u>	<u>(3,302,267)</u>
Net cash used for operating activities	<u>(1,057,926)</u>	<u>(1,821,330)</u>
Cash flows from noncapital financing activities:		
Republic of Palau appropriations and grants received	<u>2,534,370</u>	<u>2,366,386</u>
Net cash provided by noncapital financing activities	<u>2,534,370</u>	<u>2,366,386</u>
Cash flows from capital and related financing activities:		
Additions to capital assets	<u>(187,900)</u>	<u>(290,874)</u>
Net cash used for capital and related financing activities	<u>(187,900)</u>	<u>(290,874)</u>
Cash flows from investing activities:		
Investment income	360,029	323,454
Endowment and restricted cash	(530,386)	(202,063)
Endowment fund investments	<u>(649,341)</u>	<u>(579,000)</u>
Net cash used in investing activities	<u>(819,698)</u>	<u>(457,609)</u>
Net change in cash	468,846	(203,427)
Cash, beginning of year	<u>475,487</u>	<u>678,914</u>
Cash, end of year	<u>\$ 944,333</u>	<u>\$ 475,487</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, 2013 and 2012

	2013	2012
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,288,545)	\$ (1,872,041)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Provision for uncollectable accounts	141,702	425,721
Depreciation	302,181	296,690
Changes in net assets:		
Accounts receivable, net	516,419	(1,835,167)
Inventory	49,031	(109,869)
Deposits	-	28,283
Accounts payable	(255,662)	1,259,962
Accrued liabilities	3,447	100,683
Unearned revenues	(521,021)	(127,855)
Compensated absences	(5,478)	12,263
Net cash used for operating activities	\$ (1,057,926)	\$ (1,821,330)

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 Position
- Budget and Actual (GAAP-Basis)
For the Year Ended September 30, 2013

	General and Federal Funds			
	Budgeted	Amounts	Actual	Favorable
	Original	Final	Amounts	(Unfavorable) Variance
Operating revenues	\$ 4,211,354	\$ 4,211,354	\$ 5,595,674	\$ 1,384,320
Operating expenses:				
Supplies, materials, other operating expenses and services	2,362,040	2,362,040	3,352,836	(990,796)
Salaries	3,155,430	3,155,430	3,061,138	94,292
Employee benefits	566,654	566,654	543,626	23,028
Utilities	538,230	538,230	473,875	64,355
Total operating expenses	6,622,354	6,622,354	7,431,475	(809,121)
Operating loss	(2,411,000)	(2,411,000)	(1,835,801)	575,199
Non-operating revenues (expenses):				
Republic of Palau appropriations	2,411,000	2,411,000	2,411,000	-
Total non-operating revenues, net	2,411,000	2,411,000	2,411,000	-
Excess of revenues & other financing sources over expenditures & other financing uses	\$ -	\$ -	\$ 575,199	\$ 575,199
Reconciliation of Budget to GAAP basis:				
	<u>General Fund</u>	<u>Federal Fund</u>	<u>Total</u>	
Budget basis	\$ 5,567,431	\$ 1,054,923	\$ 6,622,354	
Adjustments (net)				
Federal awards revenues from student financial aid	-	1,384,320	1,384,320	
Capital assets expenditures transfer out	(58,778)	(51,732)	(110,510)	
Expense accruals	(464,689)	-	(464,689)	
GAAP basis	\$ 5,043,964	\$ 2,387,511	\$ 7,431,475	

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

Reporting Entity

Palau Community College (PCC) is an institution of higher education created by Republic of Palau Public Law (RPPL) 4-2 and is considered to be a component unit of the 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 Position* reflects the financial position of PCC at September 30, 2013 and 2012. It shows the various assets owned or controlled by PCC, related liabilities and other obligations, and the various categories of net position. Net Position 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 Position* reflects the results of operations and other changes for the years ended September 30, 2013 and 2012. It shows the various revenues and expenses, both operating and non-operating, reconciling the beginning net position balance to the ending net position balance, shown on the Statement of Net Position described above.

The *Statement of Cash Flows* reflects the inflows and outflows of cash for the years ended September 30, 2013 and 2012. It indicates the various cash activities by type, reconciling the beginning cash balance to the ending cash balance, shown on the Statement of Net Position 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 Position described above.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Basis of Presentation, Continued

The *Statement of Revenues, Expenses, and Changes in Net Position-Budget and Actual (GAAP-Basis)* reflects the budgetary comparison to actual results of operations and other changes for the year ended September 30, 2013. A budgetary comparison statement for the general and federal funds is considered to be part of the basic financial statements.

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, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting-* as amended, 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.

Budgetary Information

Amounts included in the Statement of Revenues, Expenditures and Changes in Net Position – Budget and Actual, which are presented on a GAAP budgetary basis, reconcile to the increase in Net Position in the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

PCC has no authority to impose taxes to generate revenue. PCC, as an autonomous agency of the Republic of Palau, receives an annual appropriation from the legislative branch, the Olbiil Era Kelulau (Palau National Congress). The Palau National Congress legislature 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.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Cash

Cash in the Statements of Cash Flows include cash on hand and in bank accounts.

Restricted Cash

Restricted cash are separately classified in the Statements of Net Position.

Investments

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

Accounts Receivable and Allowance for Uncollectable Accounts

PCC's accounts receivable include tuition and fee charges to students and amounts due from federal grantor agencies. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for uncollectable accounts charged to tuition and fees. For the years ended September 30, 2013 and 2012, the tuition and fees in the Statements of Revenues, Expenses, and Changes in Net Position is reported net of the provision for uncollectable accounts of \$141,702 and \$425,721, respectively.

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 capitalize the 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 and 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

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Unearned Revenues

Unearned 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. Unearned 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 Statements of Net Position as a component of accrued liabilities and benefits payable. The accrued leave at September 30, 2013 and 2012 were \$161,341 and \$166,819, respectively.

Net Position

Net position represents the residual interest in PCC's assets after liabilities are deducted and consist of three components: net investments in capital assets; restricted expendable and non-expendable. All other net position is unrestricted. The components of net position are further described as follows:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt attributable to the acquisition, construction or improvements of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisitions, construction, or improvement of those assets or related debt also should be included in this component of net position.

Restricted:

Nonexpendable – Net position subject to externally imposed stipulations that PCC maintains them permanently. 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.

Expendable – Net position whose use by the PCC is subject to externally imposed stipulations. This includes resources in which PCC is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Net Position, Continued

Unrestricted – Net position that is not subject to externally imposed stipulations. 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.

When both restricted and unrestricted resources are available for use, it is PCC's policy to use restricted revenues first, then unrestricted resources as they are needed.

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, 2013 and 2012

(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 Position. 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 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, 2013 and 2012 were \$2,266,060 and \$2,479,846, 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.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Deposits and Investments, Continued

Deposits, Continued

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.

As of September 30, 2013 and 2012, the carrying amount of PCC's total cash was \$944,333 and \$475,487, respectively, and restricted cash was \$806,986 and \$276,599, respectively. The corresponding bank balances as of September 30, 2013 and 2012 were \$1,692,560 and \$994,066 respectively, and are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. From these deposits, \$830,531 and \$773,229 in fiscal year 2013 and 2012, respectively, were subject to coverage by FDIC. The uninsured bank balance as of September 30, 2013 and 2012 was \$862,029 and \$220,837, respectively. PCC does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized and are exposed to custodial credit risk.

In 2007, the Republic of Palau Financial Institutions Commission issued an order to freeze all assets of Pacific Savings Bank (a local Bank) and subsequently placed the bank under receivership. As of September 30, 2013 and 2012, PCC had cash on deposit with the local Bank in the amount of \$100,136 and is included in other accounts receivable, due to the uncertainty of its recoverability. At September 30, 2013 and 2012, an allowance for impairment of deposit for the entire amount has been recorded and is reported as a component of the allowance for uncollectible accounts disclosed in Note 2.

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 PCC 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.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Deposits and Investments, Continued

Investments, Continued

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. At September 30, 2013 and 2012, PCC's investments by account activity stated at fair value consisted of the following:

<u>2013</u>	<u>Allocation</u>		Market Value
	<u>Actual</u>	<u>Per Policy</u>	<u>9/30/2013</u>
Fixed income	28%	30%	\$ 875,011
U.S. Equities - Large Cap Value	18%	18%	549,644
U.S. Equities - Large Cap Growth	18%	17%	566,898
Non U.S. Equities	25%	25%	789,147
U.S. Equities - Small Cap Core	<u>11%</u>	<u>10%</u>	<u>358,641</u>
	<u>100%</u>	<u>100%</u>	<u>\$ 3,139,341</u>

<u>2012</u>	<u>Allocation</u>		Market Value
	<u>Actual</u>	<u>Per Policy</u>	<u>9/30/2012</u>
Fixed income	31%	30%	\$ 767,399
U.S. Equities - Large Cap Value	17%	18%	427,188
U.S. Equities - Large Cap Growth	18%	17%	455,731
Non U.S. Equities	24%	25%	605,273
U.S. Equities - Small Cap Core	<u>10%</u>	<u>10%</u>	<u>234,409</u>
	<u>100%</u>	<u>100%</u>	<u>\$ 2,490,000</u>

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Deposits and Investments, Continued

Investments, Continued

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. PCC's investment policy does not limit investment maturities except with respect to cash equivalents, which must have a maximum average maturity of less than one year and no single issue shall have a maturity of greater than two (2) years. PCC manages the risk of exposure to declines in fair value by limiting its average maturity to two years.

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 portfolio. 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.

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, 2013 and 2012, 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, 2013 and 2012, 100% of PCC's investments were held in PCC's name, and PCC is not exposed to custodial credit risk related to these investments.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

Deposits and Investments, Continued

Investments, Continued

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, 2013 and 2012, PCC did not have investments in foreign currency.

Investment income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

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.

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

Notes to Financial Statements
September 30, 2013 and 2012

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources or deferred inflows of resources to ensure consistency in financial reporting. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PCC.

In April 2012, GASB issued Statement No. 66, *Technical Corrections—2012*—which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this Statement are effective for periods beginning after December 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PCC.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial report of most pension plans, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of these statements will have a material effect on the financial statements of PCC.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations. The Statement requires assets acquired and liabilities assumed to be measured at carrying values in an acquisition. The Statement requires disclosures to be made about government combinations and disposals of government operations so that financial statement users can evaluate the nature and financial effects of those combinations. The Statement is effective for financial statements for periods beginning after December 15, 2013 and should be applied on a prospective basis. Early application is encouraged. Management has not yet determined the effect of implementation of these Statements on the financial statements of PCC.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in this Statement are effective for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

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

Notes to Financial Statements
September 30, 2013 and 2012

(2) Accounts Receivable

Accounts receivable consists of the following at September 30, 2013 and 2012:

	2013	2012
Tuition and fees	\$ 1,603,988	\$ 2,327,358
Due from grantor agencies	2,282,911	2,065,169
Accounts receivable, others	130,167	178,883
College of Micronesia	73,353	41,661
Employee and Board of Trustees	32,343	26,109
	4,122,762	4,639,180
Allowance for uncollectible accounts	(1,290,177)	(1,148,474)
	\$ 2,832,585	\$ 3,490,706

The accounts receivable, others includes an amount of \$100,136 for cash deposits in a local bank which operations was placed under receivership in 2007 by the Republic of Palau Financial Institution Commission. Due to the uncertainty of the recoverability of the cash deposits from the local bank, PCC provided an allowance for impairment of cash deposits of \$100,136 for the fiscal years ended September 30, 2013 and 2012, respectively, and is included as a component of the allowance for uncollectible accounts.

(3) Inventory

Inventory consists of the following at September 30, 2013 and 2012:

	2013	2012
Bookstore	\$ 277,314	\$ 326,490
Cafeteria	2,340	2,195
	\$ 279,654	\$ 328,685

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

Notes to Financial Statements
September 30, 2013 and 2012

(4) Restricted Cash

Restricted cash consists of the following at September 30, 2013 and 2012:

	2013	2012
Management Information System Fund	\$ 453,589	\$ -
PCC Infrastructure improvement fund	272,866	250,519
Non-Freely Associated States employees' retirement savings	67,841	-
Endowment savings	12,690	23,229
Scholarship fund	-	2,851
	\$ 806,986	\$ 276,599

(5) Endowment Fund Investment

The PCC Endowment Fund was established in 1995 and was initially funded with \$100,000 by the government of the Republic of Palau. The Endowment Fund's goal is to grow in size to an endowment principle of \$10 million through a combination of investment returns, public and private contributions and a variety of special fundraising events. At such time, PCC plans to utilize the earned interest income to fund college programs and services and to provide post-secondary education and vocational training to the Republic of Palau and the Pacific region. The Board of Trustees is authorized by public law to manage investments consistent with the College's investment policy. Investments held by PCC for the Endowment Fund consist primarily of money market funds, fixed income securities, and common stock and is further disclosed in Note 1. The endowment funds are restricted and are recorded in the restricted nonexpendable net position category on the Statement of Net Position. The PCC Endowment Fund consists of the following at September 30, 2013 and 2012:

	2013	2012
Endowment investments	\$ 3,139,341	\$ 2,490,000
Endowment -restricted cash	12,690	23,229
	\$ 3,152,031	\$ 2,513,229

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

Notes to Financial Statements
September 30, 2013 and 2012

(5) Endowment Fund Investment, Continued

As of September 30, 2013 and 2012, the PCC's endowment investments at fair value are as follows:

	2013	2012
Fixed income securities:		
Corporate bonds	\$ 188,231	\$ 274,012
Government	618,872	387,931
Federal agencies	40,656	46,703
Total fixed income	847,759	708,646
Other investments:		
U.S. equities	1,419,271	1,076,135
International equities	746,729	590,153
Cash and cash equivalents	125,582	115,066
	2,291,582	1,781,354
	\$ 3,139,341	\$ 2,490,000

The following represents the composition of investment gains for the years ended September 30, 2013 and 2012:

	2013	2012
Unrealized investment gains	\$ 122,611	\$ 219,826
Realized investment gains	217,195	6,789
Net interest income and dividends	20,223	96,839
	\$ 360,029	\$ 323,454

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

Notes to Financial Statements
September 30, 2013 and 2012

(5) Endowment Fund Investment, Continued

As of September 30, 2013 and 2012, the College's fixed income securities had the following maturities:

2013

Investment type	Fair Value	2013 Investment Maturities (In Years)						Rating	
		Less than						Moody	Standard & Poor's
		1	1-3	3-5	5-7	7-9	9 or more		
Government securities	36,087	36,087	-	-	-	-	-	AAA	No rating
Corporate bonds	8,328	-	8,328	-	-	-	-	AA2	AA
Corporate bonds	7,764	-	7,764	-	-	-	-	BA2	BBB
Corporate bonds	8,183	-	8,183	-	-	-	-	BAA2	A-
Government securities	174,266	-	174,266	-	-	-	-	AAA	No rating
Government securities	76,928	-	76,928	-	-	-	-	AAA	No rating
Corporate bonds	7,989	-	-	7,989	-	-	-	A3	A
Corporate bonds	8,889	-	-	8,889	-	-	-	A1	A+
Corporate bonds	9,142	-	-	9,142	-	-	-	A-3	A-
Government securities	79,364	-	-	79,364	-	-	-	AAA	No rating
Government securities	59,101	-	-	59,101	-	-	-	AAA	No rating
Government securities	40,231	-	-	40,231	-	-	-	AAA	No rating
Corporate bonds	9,108	-	-	-	9,108	-	-	BAA2	BBB
Corporate bonds	8,936	-	-	-	8,936	-	-	AA3	AA-
Corporate bonds	7,596	-	-	-	-	7,596	-	BAA2	BBB
Corporate bonds	9,770	-	-	-	-	9,770	-	BAA1	BBB+
Corporate bonds	6,958	-	-	-	-	6,958	-	A2	A
Corporate bonds	7,612	-	-	-	-	7,612	-	A2	A
Corporate bonds	8,827	-	-	-	-	8,827	-	A3	A
Corporate bonds	9,320	-	-	-	-	-	9,320	BAA2	BBB
Corporate bonds	8,125	-	-	-	-	-	8,125	BAA3	BBB
Corporate bonds	8,401	-	-	-	-	-	8,401	BAA1	BBB+
Corporate bonds	6,693	-	-	-	-	-	6,693	BAA1	BBB+
Corporate bonds	7,884	-	-	-	-	-	7,884	A1	A+
Corporate bonds	6,417	-	-	-	-	-	6,417	A2	A
Corporate bonds	9,213	-	-	-	-	-	9,213	BAA3	BBB-
Corporate bonds	7,856	-	-	-	-	-	7,856	A1	A+
Corporate bonds	7,322	-	-	-	-	-	7,322	BAA2	BBB
Corporate bonds	7,898	-	-	-	-	-	7,898	AA1	AA
Federal Agencies	40,656	-	-	-	-	-	40,656	No rating	No rating
Government securities	64,465	-	-	-	-	-	64,465	AAA	No rating
Government securities	35,803	-	-	-	-	-	35,803	AAA	No rating
Government securities	52,627	-	-	-	-	-	52,627	AAA	No rating
	<u>\$ 847,759</u>	<u>\$ 36,087</u>	<u>\$ 275,469</u>	<u>\$ 204,716</u>	<u>\$ 18,044</u>	<u>\$ 40,763</u>	<u>\$ 272,680</u>		

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

Notes to Financial Statements
September 30, 2013 and 2012

(5) Endowment Fund Investment, Continued

2012

Investment type	Fair Value	2012 Investment Maturities (In Years)						Rating	
		Less than						Standard	
		1	1-3	3-5	5-7	7-9	9 or more	Moody	& Poor's
Corporate bonds	\$ 8,122	\$ 8,122	\$ -	\$ -	\$ -	\$ -	\$ -	AA3	AA+
Corporate bonds	2,047	2,047	-	-	-	-	-	BAA2	BBB
Corporate bonds	7,290	7,290	-	-	-	-	-	AA3	AA-
Corporate bonds	8,282	8,282	-	-	-	-	-	BAA1	BBB
Corporate bonds	7,605	-	7,605	-	-	-	-	BAA2	BBB
Corporate bonds	2,250	-	2,250	-	-	-	-	CAA1	CCC+
Corporate bonds	6,365	-	6,365	-	-	-	-	AA2	AA+
Corporate bonds	7,720	-	7,720	-	-	-	-	BA2	BBB
Government securities	64,159	-	64,159	-	-	-	-	AAA	No rating
Government securities	78,107	-	78,107	-	-	-	-	AAA	No rating
Corporate bonds	2,210	-	-	2,210	-	-	-	BA2	BB-
Corporate bonds	7,947	-	-	7,947	-	-	-	BAA1	BBB
Corporate bonds	7,266	-	-	7,266	-	-	-	BAA1	A-
Corporate bonds	7,235	-	-	7,235	-	-	-	BAA2	A-
Corporate bonds	2,150	-	-	2,150	-	-	-	B2	B
Corporate bonds	3,210	-	-	3,210	-	-	-	B1	BB-
Corporate bonds	3,443	-	-	3,443	-	-	-	BA2	BB
Corporate bonds	3,375	-	-	3,375	-	-	-	B1	BB
Government securities	7,340	-	-	7,340	-	-	-	AAA	No rating
Government securities	79,560	-	-	79,560	-	-	-	AAA	No rating
Government securities	22,014	-	-	22,014	-	-	-	AAA	No rating
Corporate bonds	2,310	-	-	-	2,310	-	-	BA3	BB-
Corporate bonds	3,248	-	-	-	3,248	-	-	B1	BB-(-)
Corporate bonds	3,218	-	-	-	3,218	-	-	BA3	BBB-
Corporate bonds	7,279	-	-	-	7,279	-	-	A2	A-
Corporate bonds	7,446	-	-	-	7,446	-	-	A1	A+
Corporate bonds	2,305	-	-	-	2,305	-	-	BA3	BB+
Corporate bonds	8,681	-	-	-	8,681	-	-	BAA2	BBB
Corporate bonds	3,113	-	-	-	3,113	-	-	B3	B+
Corporate bonds	3,300	-	-	-	3,300	-	-	BA1	BB+
Corporate bonds	3,383	-	-	-	3,383	-	-	B3	B+
Corporate bonds	7,816	-	-	-	7,816	-	-	BAA1	BBB+
Corporate bonds	2,248	-	-	-	2,248	-	-	BA3	BB
Corporate bonds	9,434	-	-	-	9,434	-	-	AA2	AA-
Corporate bonds	2,200	-	-	-	2,200	-	-	BA3	BBB-
Government securities	45,216	-	-	-	45,216	-	-	AAA	No rating
Corporate bonds	3,330	-	-	-	-	3,330	-	B3	B-(+)
Corporate bonds	3,248	-	-	-	-	3,248	-	BA3	BB
Corporate bonds	7,549	-	-	-	-	7,549	-	A2(-)	A+
Corporate bonds	3,375	-	-	-	-	3,375	-	CAA3	B-(+)
Corporate bonds	3,023	-	-	-	-	3,023	-	BA3	BB-
Corporate bonds	6,633	-	-	-	-	6,633	-	BAA2	BBB
Corporate bonds	8,302	-	-	-	-	8,302	-	A3	A-
Corporate bonds	3,210	-	-	-	-	3,210	-	B1	BB-
Corporate bonds	7,459	-	-	-	-	7,459	-	A2	A
Government securities	46,949	-	-	-	-	46,949	-	AAA	No rating
Corporate bonds	7,676	-	-	-	-	-	7,676	BAA1	BBB+
Corporate bonds	10,028	-	-	-	-	-	10,028	AA2	AA
Corporate bonds	7,398	-	-	-	-	-	7,398	AA3	AA
Corporate bonds	8,732	-	-	-	-	-	8,732	AA1	AA
Corporate bonds	8,269	-	-	-	-	-	8,269	BAA1	BBB+
Corporate bonds	8,987	-	-	-	-	-	8,987	A1	A+
Corporate bonds	7,354	-	-	-	-	-	7,354	A2	A
Corporate bonds	9,923	-	-	-	-	-	9,923	BAA3	BBB-
Corporate bonds	7,018	-	-	-	-	-	7,018	A1	A+
Federal Agencies	46,703	-	-	-	-	-	46,703	No rating	No rating
Government securities	44,586	-	-	-	-	-	44,586	AAA	No rating
	<u>\$ 708,646</u>	<u>\$ 25,741</u>	<u>\$ 166,206</u>	<u>\$ 145,750</u>	<u>\$ 111,197</u>	<u>\$ 93,078</u>	<u>\$ 166,674</u>		

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

Notes to Financial Statements
September 30, 2013 and 2012

(6) Capital Assets

A schedule of changes in capital assets for the fiscal years ended September 30, 2013 and 2012 is shown below:

Capital assets activity for the fiscal year ended September 30, 2013:

	Balance at <u>9/30/12</u>	<u>Additions</u>	Transfers/ <u>Deletions</u>	Balance at <u>9/30/13</u>
Buildings and improvements	\$ 7,485,657	\$ -	\$ -	\$ 7,485,657
Furniture, vehicles and equipment	<u>1,181,206</u>	<u>187,900</u>	<u>-</u>	<u>1,369,106</u>
Total depreciable assets	8,666,863	187,900	-	8,854,763
Accumulated depreciation	<u>(7,196,702)</u>	<u>(302,181)</u>	<u>-</u>	<u>(7,498,883)</u>
Capital assets, net	<u>\$ 1,470,161</u>	<u>\$ (114,281)</u>	<u>\$ -</u>	<u>\$ 1,355,880</u>

Capital assets activity for the fiscal year ended September 30, 2012:

	Balance at <u>9/30/11</u>	<u>Additions</u>	Transfers/ <u>Deletions</u>	Balance at <u>9/30/12</u>
Buildings and improvements	\$ 7,483,881	\$ 1,776	\$ -	\$ 7,485,657
Furniture, vehicles and equipment	<u>1,070,258</u>	<u>289,098</u>	<u>(178,150)</u>	<u>1,181,206</u>
Total depreciable assets	8,554,139	290,874	(178,150)	8,666,863
Accumulated depreciation	<u>(7,055,499)</u>	<u>(296,690)</u>	<u>155,487</u>	<u>(7,196,702)</u>
Capital assets, net	<u>\$ 1,498,640</u>	<u>\$ (5,816)</u>	<u>\$ (22,663)</u>	<u>\$ 1,470,161</u>

Capital assets essentially serve all functions. The depreciation expense of \$302,181 and \$296,690, respectively, for the years ended September 30, 2013 and 2012, is unallocated.

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

Notes to Financial Statements
September 30, 2013 and 2012

(7) Long-term Liabilities

At September 30, 2013 and 2012, the summary of changes in the long-term liabilities is as follows:

2012

	<u>Balance</u> <u>10/1/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>9/30/13</u>	<u>Current</u> <u>Portion</u>	<u>Noncurrent</u> <u>Portion</u>
Compensated absences	\$ <u>166,819</u>	\$ <u>144,320</u>	\$ <u>149,798</u>	\$ <u>161,341</u>	\$ <u>125,846</u>	\$ <u>35,495</u>

2012

	<u>Balance</u> <u>10/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>9/30/12</u>	<u>Current</u> <u>Portion</u>	<u>Noncurrent</u> <u>Portion</u>
Compensated absences	\$ <u>154,556</u>	\$ <u>139,074</u>	\$ <u>126,811</u>	\$ <u>166,819</u>	\$ <u>126,553</u>	\$ <u>40,266</u>

(8) National Government Contributions

At September 30, 2013 and 2012, the Republic of Palau appropriated and contributed the following to PCC:

	<u>2013</u>	<u>2012</u>
For operational costs of PCC and its Board of Trustees	<u>\$2,411,000</u>	<u>\$2,631,200</u>

At September 30, 2013 and 2012, amounts due from Republic of Palau representing unremitted balances of appropriations due to PCC was \$536,181 and \$659,551, respectively, and is reported in the Statements of Net Position as appropriations receivable.

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

Notes to Financial Statements
September 30, 2013 and 2012

(9) Functional Expenses Classifications

The functional expenses classifications for fiscal years ended 2012 and 2011 are as follows:

2013

	Salaries	Employee Benefits	Materials, Other Operating Expenses and Services	Utilities	Depreciation	Total
Student aid	\$ 141,900	\$ 861	\$ 866,685	\$ 181	\$ -	\$ 1,009,627
Instructional	1,229,286	208,646	360,986	27,640	-	1,826,558
Administration	779,064	147,040	729,270	82,862	-	1,738,236
Student services	582,038	119,511	337,106	25,035	-	1,063,690
Operations and maintenance	270,610	49,424	162,534	327,840	-	810,408
Auxiliary enterprises	89,963	18,400	577,720	3,174	-	689,257
Academic support	202,571	37,727	53,801	21,836	-	315,935
Depreciation	-	-	-	-	302,181	302,181
	<u>\$ 3,295,432</u>	<u>\$ 581,609</u>	<u>\$ 3,088,102</u>	<u>\$ 488,568</u>	<u>\$ 302,181</u>	<u>\$ 7,755,892</u>

2012

	Salaries	Employee Benefits	Supplies, Materials, Other Operating Expenses and Services	Utilities	Depreciation	Total
Student aid	\$ 112,151	\$ 780	\$ 845,094	\$ 266	\$ -	\$ 958,291
Instructional	1,404,593	240,741	369,145	27,764	-	2,042,243
Administration	787,182	143,882	901,707	134,817	-	1,967,588
Student services	541,446	118,444	356,909	29,449	-	1,046,248
Operations and maintenance	281,756	58,710	219,962	249,740	-	810,168
Auxiliary enterprises	90,061	18,124	410,152	2,743	-	521,080
Academic support	236,358	41,294	73,873	14,349	-	365,874
Depreciation	-	-	-	-	296,690	296,690
	<u>\$ 3,453,547</u>	<u>\$ 621,975</u>	<u>\$ 3,176,842</u>	<u>\$ 459,128</u>	<u>\$ 296,690</u>	<u>\$ 8,008,182</u>

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

Notes to Financial Statements
September 30, 2013 and 2012

(10) 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. Generally, benefits vest after three years of credited service. Members that retire at or after age 60, with 25 years of vesting service, are entitled to retirement benefits. Republic of Palau Public Law 2-26 (RPPL 2-26) is the authority under which benefit provisions and contributions rates are established. Member contribution rates are established by RPPL 2-26 at six percent (6%) of total payroll and are matched dollar for dollar by the employer. PCC contributed \$159,169, \$160,599 and \$179,565 for fiscal years 2013, 2012 and 2011, respectively.

Under the provisions of the RPPL 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.

The Fund utilizes the actuarial cost method termed "aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation. The following is the statement of actuarial assumptions as of October 1, 2011 applicable to the plan year ending September 30, 2012 of the ROP Civil Service Pension Plan:

Actuarial Cost Method	:	Normal costs are calculated under the level aggregate method.
Investment Income	:	7.5% 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

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

Notes to Financial Statements
September 30, 2013 and 2012

(10) Retirement Plan, Continued

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the 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.

Based on the actuarial valuation of the Fund as of October 1, 2011 issued in October 2012, the actuarial valuation determined the unfunded pension benefit obligation as follows:

Present value of accrued benefits as of October 1, 2011:	
Active participants	\$ 74,716,975
Participants in pay status	62,987,516
Participants with vested deferred benefits	<u>2,323,366</u>
Total pension benefit obligation	140,027,857
Market value of assets	<u>36,128,666</u>
Unfunded benefit obligation	<u>\$103,899,191</u>
Funded Ratio as of 10/1/2011 (ratio of assets to liabilities)	<u>25.8%</u>

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

(11) Commitments and Contingencies

Encumbrances

PCC reserves its fund balance for internal purposes, for those portions legally segregated for specific future use. At September 30, 2013 and 2012, the reserve for encumbrances was \$158,797 and \$180,945, 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, 2013 and 2012 was \$1,571,863 and \$1,430,800, respectively.

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

Notes to Financial Statements
September 30, 2013 and 2012

(11) Commitments and Contingencies, Continued

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 would be self-insured to a material extent.

(12) Economic Dependency

For the years ended September 30, 2013 and 2012, PCC derives 75% and 78% of its total revenues, respectively, from Federal grants and appropriations from the Republic of Palau. Significant decrease in assistance could adversely affect the operations of PCC.

(13) Impairment of Fixed Assets

PCC reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

(14) Fair Value of Financial Instruments

PCC financial instruments are cash, student receivables and receivables from ROP Government and Federal agencies and payables. The recorded values of these financial instruments approximate their fair values based on their short-term nature.

(15) Reclassifications

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

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

Notes to Financial Statements
September 30, 2013 and 2012

(16) Subsequent Events

PCC has evaluated subsequent events from September 30, 2013 through May 30, 2014, the date of financial statements were available to be issued. PCC did not note any subsequent events requiring disclosure or adjustment to the accompanying financial statements.

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

SINGLE AUDIT REPORTS

For The Year Ended September 30, 2013



CERTIFIED PUBLIC ACCOUNTANT

SAIPAN

Family Building, Suite 201
PMB 297 Box 10000
Saipan, MP 96950
Tel Nos. (670) 233-1837/0456
Fax No. (670) 233-8214

GUAM

Reflection Center, Suite 207
P.O. Box 12734
Tamuning, GU 96931
Tel Nos. (671) 472-2680/2687
Fax No. (671) 472-2686

PALAU

PIDC Apartment No. 11
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, 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, the financial statements of Palau Community College (PCC) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the PCC's basic financial statements, and have issued my report thereon dated May 30, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered PCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PCC's internal control. Accordingly, I do not express an opinion on the effectiveness of the PCC's internal control.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not design to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit, I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Koror, Republic of Palau
May 30, 2014



CERTIFIED PUBLIC ACCOUNTANT

SAIPAN

Family Building, Suite 201
PMB 297 Box 10000
Saipan, MP 96950
Tel Nos. (670) 233-1837/0456
Fax No. (670) 233-8214

GUAM

Reflection Center, Suite 207
P.O. Box 12734
Tamuning, GU 96931
Tel Nos. (671) 472-2680/2687
Fax No. (671) 472-2686

PALAU

PIDC Apartment No. 11
P.O. Box 1266
Koror, PW 96940
Tel No. (680) 488-8615
Fax No. (680) 488-8616

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Palau Community College

Report on Compliance For Each Major Federal Program

I have audited the compliance of Palau Community College (PCC), a component unit of the Republic of Palau, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the PCC's major federal programs for the year ended September 30, 2013. PCC's major federal programs are identified in the Summary of Auditor's Results section on page 48 of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the PCC's major federal programs based on my audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, my audit does not provide a legal determination of PCC's compliance.

Opinion on Each Major Federal Program

In my opinion, PCC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of PCC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred above. In planning and performing my audit of compliance, I considered PCC's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance; yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Koror, Republic of Palau
May 30, 2014

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

Introduction to Federal Award Programs
For the Year Ended September 30, 2013

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, 2013, 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 as of September 30, 2013.

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
- Talent Search
- Asian American and Native American Pacific Islander-Serving Institution Program (AANAPISI)

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

Direct Grants

During the year ended September 30, 2013, PCC received from the U.S. Department of the Interior grants to provide Joint Training to the employees of the Republic of Palau National Government and Palau Community College.

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

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013

Federal Grantor/Pass- Through Grantor's Program Title	CFDA Number	Program or Award Amount	Receivable from Grantor (Deferred Revenue) at October 1, 2012	Cash Receipts FY13	Expenditures FY13	Receivable from Grantor (Deferred Revenue) at September 30, 2013
<u>U.S. Department of Education</u>						
<u>Direct Programs</u>						
Student Financial Aid Programs:						
Federal Supplemental Educational						
Opportunity Grant	84.007	\$ 41,838	\$ 40,352	\$ 45,267	\$ 65,394	\$ 60,479
Federal Work-Study Program	84.033	127,850	15,886	147,113	133,050	1,823
Federal Pell Grant Program	84.063	2,684,995	1,802,596	3,295,877	3,520,134	2,026,853
Academic Competitiveness Grant	84.375	102,670	12,670	12,670	-	-
Sub-total Student Financial Aid Programs		<u>2,957,353</u>	<u>1,871,504</u>	<u>3,500,927</u>	<u>3,718,578</u>	<u>2,089,155</u>
TRIO Cluster:						
Upward Bound Program	84.047A	337,713	6,977	344,914	338,048	111
Upward Bound Math and Science	84.047M	242,250	2	16,145	16,143	-
Talent Search	84.044A	230,000	1,527	266,896	266,896	1,527
Sub-total TRIO Cluster Program		<u>809,963</u>	<u>8,506</u>	<u>627,955</u>	<u>621,087</u>	<u>1,638</u>
Asian American and Native						
American Pacific Islander-						
Serving Institutions Program	84.382B	290,377	15,424	183,409	170,168	2,183
Sub-total U.S. Department of Education		<u>4,057,693</u>	<u>1,895,434</u>	<u>4,312,291</u>	<u>4,509,833</u>	<u>2,092,976</u>
<u>U.S. Department of Health and Human Services</u>						
<u>Direct Programs</u>						
Basic/Core Area Health and						
Education Center	93.107	70,000	75,055	62,396	82,295	94,954
Sub-total U.S. Department of Health and Human Services		<u>70,000</u>	<u>75,055</u>	<u>62,396</u>	<u>82,295</u>	<u>94,954</u>
<u>U.S. Department of the Interior</u>						
<u>Direct Programs</u>						
PCC-ROPNG Joint Training						
Maintenance Assistance Program						
MAP-PCC-2012-1	15.875	100,000	-	15,329	18,998	3,669
OMIP-ROP-2009	15.875	100,000	10,305	10,305	-	-
Sub-total U.S. Department of the Interior		<u>200,000</u>	<u>10,305</u>	<u>25,634</u>	<u>18,998</u>	<u>3,669</u>
Sub-total Direct Programs		<u>4,327,693</u>	<u>1,980,794</u>	<u>4,400,321</u>	<u>4,611,126</u>	<u>2,191,599</u>
Total Federal Programs		<u>\$ 4,327,693</u>	<u>\$ 1,980,794</u>	<u>\$ 4,400,321</u>	<u>\$ 4,611,126</u>	<u>\$ 2,191,599</u>

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
For The Year Ended September 30, 2013

(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.

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.

(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
For The Year Ended September 30, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified? _____ yes x no
- Significant deficiency(ies) evaluated as Material Weaknesses? _____ yes x none reported

Noncompliance material to Financial Statements noted? _____ yes x no

Federal Awards

Internal control over major programs

- Significant deficiency(ies) identified? _____ yes x no
- Significant deficiency(ies) evaluated as Material Weaknesses? _____ yes x none reported

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

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)

STATISTICAL SECTION

For The Year Ended September 30, 2013

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

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

Fall Semester Fiscal Year	Employees				
	Regular Faculty	Adjunct Faculty	Regular Staff	Part-time/ Temp. Staff	Total Employees
2004	28	18	84	42	172
2005	24	18	73	60	175
2006	23	13	83	49	168
2007	22	18	77	55	172
2008	20	18	80	47	165
2009	29	19	68	73	189
2010	29	19	84	47	179
2011	26	20	90	40	176
2012	35	19	105	56	215
2013	33	14	110	60	244

Source: PCC Human Resource Records.

See Independent Auditor's Report.

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

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

Fall Semester Fiscal Year	Tuition Rate Per Credit Hour	ENROLLMENT		
		Total Headcount	FTSE (1)	Part-time and Others (2)
2004	\$70	705	507	198
2005	\$70	651	430	221
2006	\$70	651	431	220
2007	\$70	683	452	231
2008	\$70	649	474	175
2009	\$80	599	394	205
2010	\$90	726	417	309
2011	\$110	742	508	234
2012	\$110	680	423	257
2013	\$110	646	416	230

Source: PCC Records Department

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

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

See Independent Auditor's Report.

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

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

Fall Semester Fiscal Year	Attendance		Gender		Residency		Age	
	Full Time	Part Time	Male	Female	IN Campus	OFF Campus	Median	Mean
2004	72%	28%	290	415	103	602	19	27
2005	66%	34%	374	277	79	572	19	32
2006	66%	34%	279	372	89	562	20	33
2007	40%	60%	274	409	90	593	20	22
2008	46%	54%	299	350	102	547	20	21
2009	66%	34%	316	283	85	514	19	20
2010	57%	43%	324	402	324	402	19	18
2011	68%	32%	315	427	102	640	21	18
2012	62%	38%	297	383	112	568	21	24
2013	64%	36%	303	343	100	546	35	24

Fall Semester Fiscal Year	Nationality							Total Headcount
	Palau	Yap	Pohnpei	Chuuk	Marshalls	Kosrae	Others (1)	
2004	549	65	13	10	13	35	20	705
2005	480	81	11	9	11	29	30	651
2006	475	98	10	15	13	22	18	651
2007	500	74	21	23	16	24	25	683
2008	453	66	16	26	25	25	38	649
2009	428	50	20	25	22	19	35	599
2010	552	66	29	20	20	30	9	726
2011	561	87	12	35	3	5	39	742
2012	510	63	12	33	9	15	38	680
2013	494	52	12	30	12	18	28	646

Source: PCC records

Note (1): Others consist of Taiwan, Korea, China, Japan, Philippines, Bangladesh, Sri Lanka, Ghana and U.S.A.

See Independent Auditor's Report.