A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Navajo County Community College District

(Northland Pioneer College)

Year Ended June 30, 2012

STATE OF ARIZONA
OFFICE OF THE
AUDITOR
GENERAL

Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov

Navajo County Community College District
(Northland Pioneer College)
Single Audit Reporting Package
Year Ended June 30, 2012

Table of Contents — Page

Financial Section

Independent Auditors' Report

Management's Discussion and Analysis — i

Statement of Net Assets—Primary Government — 1

Statement of Financial Position—Component Unit — 3

Statement of Revenues, Expenses, and Changes in Net Assets—Primary Government — 4

Statement of Activities—Component Unit — 5

Statement of Cash Flows—Primary Government — 6

Notes to Financial Statements — 8

Supplementary Information

Schedule of Expenditures of Federal Awards — 22

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards* — 25

Single Audit Section

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 — 27

Schedule of Findings and Questioned Costs

Summary of Auditors' Results — 29

Financial Statement Findings — 31

Federal Award Findings and Questioned Costs — 33

District Responses

Corrective Action Plan — 37

Summary Schedule of Prior Audit Findings — 41

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Navajo County Community College District

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Navajo County Community College District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Navajo County Community College District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages i through viii 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. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards,

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of the District's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

November 26, 2012

Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2012

This discussion and analysis prepared by the District's management introduces the basic financial statements and provides an overview of the District's financial activities for the year ended June 30, 2012. Please read it in conjunction with the financial statements, which immediately follow.

Basic Financial Statements

The District's annual financial statements are presented in accordance with U.S. generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB), the authoritative body for establishing Generally Accepted Accounting Principles (GAAP) for state and local governments, including public institutions of higher education. These standards permit public colleges and universities to use the guidance for special-purpose governments engaged in business-type activities. The standards allow for the presentation of the District's financial activity in a consolidated, single-column, entity-wide format. This format is similar to the type of financial statements typical of a business enterprise or not-for-profit organization. The basic financial statements consist of the following:

The *Statement of Net Assets* reflects the financial position of the District at June 30, 2012. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represent institutional equity or ownership in the District's total assets.

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects the results of operations and other changes for the year ended June 30, 2012. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net assets amount, which is shown on the *Statement of Net Assets* described above.

The *Statement of Cash Flows* reflects the inflows and outflows of cash and cash equivalents for the year ended June 30, 2012. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the *Statement of Net Assets* 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 Assets* described above.

Financial Highlights and Analysis

Consistent with its mission, the District creates, supports and promotes lifelong learning. Major funding sources supporting all functions include property taxes, state appropriations, government grants and contracts, and tuition and fees. The District may exercise primary and secondary property tax levy authority for generation of funds used for operating, capital equipment, and debt retirement purposes.

The condensed financial information below highlights the main categories of the *Statement of Net Assets*. Assets are distinguished as either current or noncurrent. Current assets are resources available to meet the District's operating needs. Other liabilities are made up of accounts payable, deferred revenues, and accrued payroll and employee benefits. Net assets are divided into three categories reflecting the broad characteristics of institutional equity in the assets of the District. In addition to the District's capital assets, the District holds resources that external parties have restricted for specific programs or purposes. The remaining net assets are unrestricted but are dedicated to the District's primary mission. Over time, increases or decreases in net assets may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

Condensed Financial Information

The following is a listing of condensed financial information for the District as of June 30, 2012 and June 30, 2011:

Condensed Statement of Net Assets—Primary Government
Year Ended June 30

	2012	2011	% Change
Assets:			
Current assets	$41,337,582	$35,836,165	15%
Noncurrent assets, other than capital assets	880,298	822,062	7%
Capital assets, net	33,030,762	31,586,774	5%
Total assets	75,248,642	68,245,001	10%
Liabilities:			
Other liabilities	2,745,030	1,430,024	92%
Long-term liabilities	348,345	398,385	-13%
Total liabilities	3,093,375	1,828,409	69%
Net Assets			
Invested in capital assets, net of related debt	33,030,762	31,503,651	5%
Restricted net assets	735,512	717,570	1%
Unrestricted net assets	38,388,993	34,195,371	12%
Total net assets	$72,155,267	$66,416,592	9%

Current assets increased by $5.5 million. The increase is related to cash and investments held with the county treasurer as a result of cost containment and planning initiatives. The increase will be used to help fund future capital needs.

Other liabilities increased by $1.3 million; the increase is primarily related to accounts payable and accrued payroll and employee benefits. The District has initiated several capital projects and, as a result, increased accounts payable by $763,000 at year-end. Accrued payroll and employee benefits also increased $348,000 related to the timing of payments to third-party vendors for employee benefits.

Total net assets increased by $5.7 million because of a net increase from operations. The District intends to use unrestricted net assets to support capital needs over the next several years; it is dedicating $28 million for fiscal years 2013, 2014, and 2015. While the District plans to use portions of its unrestricted net assets to allow it to provide consistent quality of services to students and communities, regular evaluation of financial resources will continue during the uncertain economic climate.

The condensed financial information on the next page highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Assets*. Generally, revenues generated by the District from exchange transactions are considered operating revenues. Other revenues such as state appropriations, property taxes, and certain government grants are considered nonoperating revenues. In compliance with U.S. generally accepted accounting principles, scholarships applied to tuition and fees are recorded as an offset to operating revenues instead of being reported as an expense to the District.

Depreciation expense is recorded in accordance with the adoption of the economic resources measurement focus. The construction and acquisition of capital assets, although budgeted and tracked as expenditures in the accounting system, are not reflected as expenses in these statements. Such transactions are instead capitalized and reported as assets, with the systematic depreciation of the costs expensed over the useful lives of the assets constructed or acquired.

The District shows an operating loss because the three largest revenue sources, property taxes, state appropriations, and government grants, are considered nonoperating revenues. Please refer to the Summary of Significant Accounting Policies (Note 1) on pages 8 and 9, which directly follows the presentation of the basic financial statements, for a description of the differences between operating and nonoperating revenues.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets—Primary Government Year Ended June 30

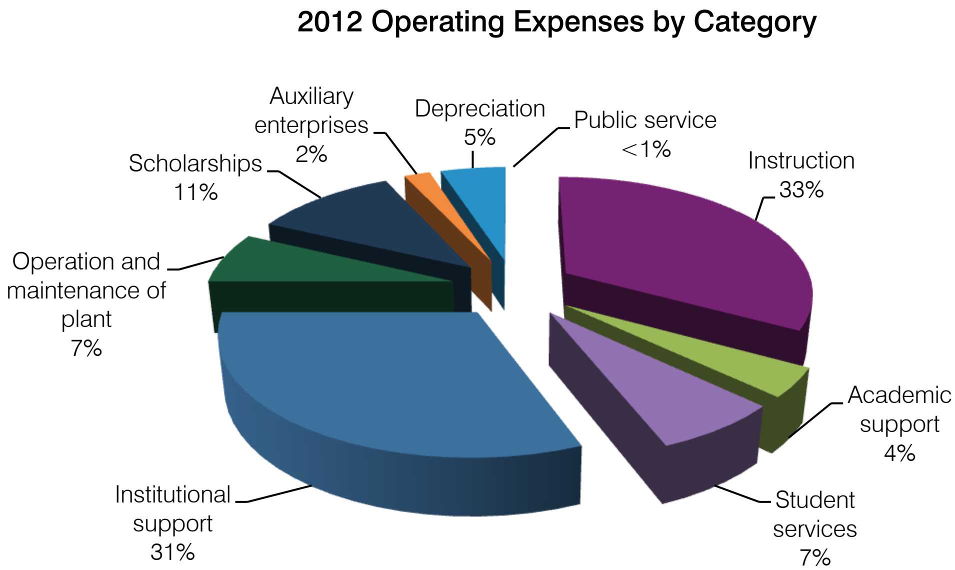
	2012	2011 (As adjusted*)	% Change
Revenues:			
Operating			
Tuition and fees, net	$ 2,690,260	$ 2,021,106	33%
Government contracts	2,638,049	2,358,643	12%
Private grants and contracts	360,370	345,534	4%
Bookstore income, net	33,564	28,892	16%
Other	291,648	369,299	-21%
Total operating revenues	6,013,891	5,123,474	17%
Nonoperating			
Property taxes	12,703,703	11,988,497	6%
State appropriations	8,181,800	10,214,000	-20%
Government grants	5,502,290	4,955,825	11%
Share of state sales taxes	372,308	386,743	-4%
Investment earnings	136,283	124,907	9%
Gain (loss) on disposal of capital assets	(180,305)	3,563	-5160%
Total nonoperating revenues	26,716,079	27,673,535	-3%
Total revenues	32,729,970	32,797,009	0%
Expenses:			
Operating	26,984,441	24,905,008	8%
Nonoperating	6,854	3,428	100%
Total expenses	26,991,295	24,908,436	8%
Increase in net assets	5,738,675	7,888,573	-27%
Total net assets, July 1	66,416,592	58,528,019	13%
Total net assets, June 30	$72,155,267	$66,416,592	9%

* The 2011 amounts for Tuition and fees, net and Government contracts were adjusted to reclassify tuition waivers associated with an intergovernmental agreement as a scholarship allowance.

Operating revenues increased overall by $890,000. The tuition and fees increase of $669,000 is associated with a timing issue in recognizing deferred revenues; excluding the timing issue, tuition and fees increased by $338,000. The District started recognizing deferred revenues in fiscal year 2011, which were related to early registration for the Fall academic semester; fiscal year 2011 excludes a portion of Fall 2011 revenues, which was recognized in fiscal year 2010. Government contracts increased by $279,000, primarily because of an increase in reimbursement from Apache County based on enrollment.

Nonoperating revenues decreased $957,000 related primarily to decreased state appropriations offset by increased property taxes and government grants. State appropriations, which includes state operating aid and equalization, decreased 20 percent compared to the prior year and funding is still below the statutory requirements. Of the 20 percent decrease, the state operating aid was reduced 52 percent, or $1.9 million, and future cuts are expected to continue. The increase in property taxes was related to the District's decision to set the tax levy at the maximum; the District is unsure it will be able to continue this practice as economic conditions are still unstable. The increase in government grants is primarily related to the Higher Education—Institutional Aid, or Title III—Native American-Serving Nontribal Institutions grant, which includes a full year of reimbursement activity in the current fiscal year compared to the prior fiscal year, which had only 4 months of activity. The grant award is for $1.9 million for 5 years and will allow the District to better serve its students by enhancing its technology, specifically expanding existing bandwidth, creating redundancy, supporting model classrooms, and implementing a virtual desktop infrastructure.

	2012	2011	% Change
Operating Expenses			
Educational and general:			
Instruction	$ 8,827,606	$ 8,450,971	4%
Public service	25,647	13,128	95%
Academic support	1,009,880	996,556	1%
Student services	2,015,021	1,532,942	31%
Institutional support	8,481,782	6,681,808	27%
Operation and maintenance of plant	1,758,007	1,563,034	12%
Scholarships	3,094,923	3,128,320	-1%
Auxiliary enterprises	404,767	1,217,755	-67%
Depreciation	1,366,808	1,320,494	4%
Total operating expenses	26,984,441	24,905,008	8%
Nonoperating Expenses			
Interest expense	6,854	3,428	100%
Total nonoperating expense	6,854	3,428	100%
Total expenses	$26,991,295	$24,908,436	8%



Operating expenses increased by $2.1 million, primarily because of Institutional support and Student services offset by Auxiliary enterprises. The District is concerned with maintaining comprehensive and quality services to the students and communities in its service area, and made a commitment for fiscal year 2012 to addressing technology and infrastructure needs as well as providing resources to college operations. Institutional support increased $1.8 million driven primarily by Information Services (IS), with $834,000, and Administrative Services, with $827,000. IS spent $551,000 related to remediation and improvements of its enterprise resource planning (ERP) system; the balance is related to computing equipment and staffing. Increases in Administrative Services are related to increasing security on campuses, leasing new facilities, and staffing. Student services increased $482,000 related primarily to the Title III grant, $313,000, and Financial Aid, $75,000. The Title III—Native American-Serving Nontribal Institutions grant includes a full year of activity in the current fiscal year compared to the prior fiscal year, which had only 4 months of activity. Financial Aid has seen a significant increase in the number of students applying for Federal Student Financial Assistance over the last couple of years, and staffing was added to address the increased demand. Auxiliary enterprises decreased by $813,000 related to the District's decision to adopt an online bookstore managed by a third party instead of maintaining a physical bookstore.

Capital Assets and Debt Administration

Capital assets are defined as those items costing over $5,000 and that have an estimated useful life of more than 1 year.

Over the course of several years, the District held off major capital acquisitions and construction because of the state of the economy; however, the District has since committed to addressing its capital needs starting with fiscal year 2012. In fiscal year 2012, the District spent $2.3 million on deferred maintenance and repair of existing buildings and parking lots, and development of a Master Facilities Plan to assess future needs. Another $1.9 million was used to address upgrades to its enterprise resource planning (ERP) system, and replace its telephone system and other network infrastructure. Of the $4.2 million spent on facilities and IS needs, $2.8 million were identified as capital assets based on the definition above; $2.0 million related to facilities and $800,000 related to IS.

For the upcoming year, the District is designating $28.0 million of unrestricted net assets on a 3-year plan to continue to address facilities, deferred maintenance, and information technology needs. A portion of the capital funding will also come from current operations.

The 3-year plan includes building two new Skill Centers, one at its Painted Desert Campus (PDC), located in Holbrook, and the other at the White Mountain Campus, located in Show Low, for an estimated cost of $13 million. The plan also includes $10 million for maintenance and repair of existing buildings and parking lots to bring facilities up to standards district-wide. Lastly, the plan includes $6 million for technology needs.

The District has commenced with the PDC Skill Center. It awarded the design of the center to the architectural firm of DLR Group, Inc. in March 2012 and awarded the construction of the facility to Whiteriver Construction, Inc. in September 2012. The center will be 26,600 square feet and will house welding, building construction, computer-based testing, shared services and future programs. The construction is expected to start in October 2012, with the project completed for Fall 2013.

Additional information on the District's capital assets can be found on page 12-13 in Note 3 to the basic financial statements.

The District currently has no long-term debt other than compensated absences, and does not anticipate acquiring new debt.

Current Factors Having Probable Future Financial Significance

The District has four primary revenues sources: property taxes, state appropriations, government grants and contracts, and tuition and fees.

Property taxes continue to be levied at the maximum rate allowed by statute; however, there is growing taxpayer opposition to this practice. Further, with the downturn in the economy, collection of assessed property taxes may become more difficult.

State appropriations used to support the District's operations decreased by 52 percent for fiscal year 2012 from fiscal year 2011. Continued pressure on state appropriations is expected in the future and fiscal year 2013 is expected to see more decreases. The District received equalization state aid of $6,452,000 in fiscal year 2012, which was a decrease of 3 percent from fiscal year 2011. Continued decreases in future equalization funding is expected because of decreased property values throughout the State. Equalization state funding may also be in jeopardy as the funding formulas for higher education in the State continue to be reevaluated.

Funding from external sources, including federal and local grants and contracts along with community and business partnerships, have become more important to the District. The District is pursuing additional grant and partnership opportunities while recognizing the increasingly competitive environment and constriction of available resources.

The District will continue to evaluate its tuition and fee structure and shift financial responsibility for education to students in the form of increased tuition and fees. However, the District is limited in the amount of increases it can implement based on the demographics of its service area. The District's service area covers approximately 21,158 square miles and is one of the poorest, most remote, and least populated of both Arizona and the United States. In-state tuition was increased 7 percent, up $4 from $56 to $60 per credit hour in fiscal year 2012, which has been increased in fiscal year 2013 an additional 3 percent to $62. The District continues to offer one of the lowest tuition rates in the State. A continuing demand for additional services and programs, along with increasing dissatisfaction with class availability and service reductions, must be balanced with anticipated reductions in funding.

Requests for Information

This discussion and analysis is designed to provide a general overview of the Navajo County Community College District's finances for all those with an interest in such matters. Questions concerning any of the information provided in the basic financial statements or requests for additional information should be addressed to Administrative Services, Northland Pioneer College, P.O. Box 610, Holbrook, Arizona 86025.

Separately issued financial statements are issued for Northland Pioneer College Foundation, a discretely presented component unit of Navajo County Community College District. Complete financial statements for the Foundation can be obtained from Northland Pioneer College Foundation, P.O. Box 610, Holbrook, Arizona 86025.

Navajo County Community College District
(Northland Pioneer College)
Statement of Net Assets—Primary Government
June 30, 2012

	Business-Type Activities
Assets	
Current assets:	
Cash and investments	$ 37,866,658
Receivables (net of allowances for uncollectibles):	
Accounts	1,227,545
Property taxes	510,056
Student loans, current portion	1,177,899
Inventories	68,697
Prepaid items	486,727
Total current assets	41,337,582
Noncurrent assets:	
Restricted assets:	
Cash and investments	729,273
Property taxes receivable (net of allowances for uncollectibles)	55,520
Student loans receivable (net of allowances for uncollectibles	95,505
Capital assets, not being depreciated	2,468,905
Capital assets, being depreciated, net	30,561,857
Total noncurrent assets	33,911,060
Total assets	75,248,642
Liabilities	
Current liabilities:	
Accounts payable	1,023,574
Accrued payroll and employee benefits	621,688
Deferred revenues	1,059,264
Deposits held in custody for others	40,504
Current portion of compensated absences payable	261,259
Total current liabilities	3,006,289
Noncurrent liabilities:	
Compensated absences payable	87,086
Total noncurrent liabilities	87,086
Total liabilities	3,093,375

(Continued)

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Net Assets—Primary Government
June 30, 2012
(Concluded)

	Business-Type Activities
Net Assets	
Invested in capital assets, net of related debt	$ 33,030,762
Restricted:	
Nonexpendable—endowments	12,414
Expendable:	
Capital projects	479,598
Scholarships, grants and contracts	243,500
Unrestricted	38,388,993
Total net assets	$ 72,155,267

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Financial Position—Component Unit
June 30, 2012

	Northland Pioneer College Foundation
Assets	
Cash and cash equivalents	$ 33,654
Restricted cash-savings	8,691
Accounts receivable	1,797
Investments:	
Marketable securities	321
Marketable securities-restricted	97,398
Real estate	12,000
Prepaid expense	5,400
Utility deposit	1,705
Land and building, net of accumulated depreciation	35,927
Total assets	$ 196,893
Liabilities	
Accounts payable	$ 3,994
Total liabilities	3,994
Net Assets	
Unrestricted	86,809
Temporarily restricted	23,648
Permanently restricted	82,442
Total net assets	192,899
Total liabilities and net assets	$ 196,893

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Revenues, Expenses, and Changes in Net Assets—Primary Government
Year Ended June 30, 2012

	Business-Type Activities
Operating revenues:	
Tuition and fees, net of scholarship allowances of $2,229,756	$ 2,690,260
Government contracts	2,638,049
Private grants and contracts	360,370
Bookstore income, net of scholarship allowances of $43,091	33,564
Other sales and services	93,019
Other	198,629
Total operating revenues	6,013,891
Operating expenses:	
Educational and general:	
Instruction	8,827,606
Public service	25,647
Academic support	1,009,880
Student services	2,015,021
Institutional support	8,481,782
Operation and maintenance of plant	1,758,007
Scholarships	3,094,923
Auxiliary enterprises	404,767
Depreciation	1,366,808
Total operating expenses	26,984,441
Operating loss	(20,970,550)
Nonoperating revenues (expenses):	
Property taxes	12,703,703
State appropriations	8,181,800
Government grants	5,502,290
Share of state sales taxes	372,308
Investment earnings	136,283
Interest expense	(6,854)
Loss on disposal of capital assets	(180,305)
Net nonoperating revenues	26,709,225
Increase in net assets	5,738,675
Total net assets, July 1, 2011	66,416,592
Total net assets, June 30, 2012	$ 72,155,267

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Activities—Component Unit
Year Ended June 30, 2012

	Northland Pioneer College Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions	$ 1,751		$ 13,923	$ 15,674
In-kind donations	10,937			10,937
Special events revenue, net	2,736			2,736
Interest income	47	$ 2,757	56	2,860
Rental income	74,902			74,902
Unrealized gain on investments		2,655	53	2,708
Total support and revenue	90,373	5,412	14,032	109,817
Net assets released from restrictions:				
Satisfaction of donor restrictions	1,975	(1,975)		
Total support, revenue, and net assets released from restrictions	92,348	3,437	14,032	109,817
Expenses:				
Program services	84,872			84,872
Support services	43,267			43,267
Unrealized loss on investments	194			194
Total expenses	128,333			128,333
Increase (decrease) in net assets	(35,985)	3,437	14,032	(18,516)
Net assets, beginning of year	122,794	20,211	68,410	211,415
Net assets, end of year	$ 86,809	$ 23,648	$ 82,442	$ 192,899

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2012

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	$ 2,029,893
Government contracts	3,298,419
Bookstore receipts	33,564
Other receipts	291,648
Payments to suppliers and providers of goods and services	(6,057,417)
Payments for employee wages and benefits	(15,169,463)
Payments to students for scholarships and loans	(3,094,923)
Net cash used for operating activities	(18,668,279)
Cash flows from noncapital financing activities:	
Property taxes	12,837,944
State appropriations	8,181,800
Grants	5,502,290
Share of state sales taxes	372,308
Deposits held in custody for others received	8,937
Deposits held in custody for others disbursed	(5,633)
Net cash provided by noncapital financing activities	26,897,646
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	5,531
Acquisition and construction of capital assets	(2,996,632)
Principal paid on capital debt	(83,123)
Interest paid on capital debt	(6,854)
Net cash used by capital and related financing activities	(3,081,078)
Cash flows from investing activities:	
Interest received on investments	136,283
Net cash provided by investing activities	136,283
Net increase in cash and cash equivalents	5,284,572
Cash and cash equivalents, July 1, 2011	33,311,359
Cash and cash equivalents, June 30, 2012	$ 38,595,931

(Continued)

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2012
(Concluded)

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (20,970,550)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,366,808
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(265,332)
Student loans receivable	(295,256)
Inventories	(6,415)
Accounts payable	763,488
Accrued payroll and employee benefits	347,993
Deferred revenues	200,221
Compensated absences payable	33,083
Decrease in:	
Prepaid items	157,681
Net cash used for operating activities	$ (18,668,279)
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and investments	$ 37,866,658
Restricted assets:	
Cash and investments	729,273
Total cash and cash equivalents, June 30, 2012	$ 38,595,931

See accompanying notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

Navajo County Community College District's accounting policies conform to generally accepted accounting principles applicable to public institutions engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District (the primary government) and its discretely presented component unit, the Northland Pioneer College Foundation (Foundation).

The Foundation is a legally separate, tax-exempt organization. It acts primarily as a fund-raising organization that receives gifts and bequests, administers those resources, and disburses payments to or on behalf of the District for scholarships and other educational purposes. Although the District does not control the timing or amount of the receipts from the Foundation, the Foundation's restricted resources can only be used by, or for the benefit of, the District or its constituents. Consequently, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board (FASB) statements for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the District's respective counterpart financial statements. For financial reporting purposes, only the Foundation's statement of financial position and activities are included in the District's financial statements as required by generally accepted accounting principles for public colleges and universities. The Foundation has a June 30 year-end.

During the year ended June 30, 2012, the Foundation distributed $18,080 to the District for both restricted and unrestricted purposes. Complete financial statements of the Foundation can be obtained from the Northland Pioneer College Foundation, P.O. Box 610, Holbrook, Arizona 86025-0610.

B. Basis of Presentation and Accounting

The basic financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy District obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net assets includes gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represents grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets includes all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in net assets provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Operating revenues and expenses generally result from exchange transactions. Accordingly, revenues, such as tuition and bookstore charges, are considered to be operating revenues. Other revenues, such as property taxes, state appropriations and certain government grants are not generated from exchange transactions and are considered to be nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

A statement of cash flows provides information about the District's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, noncapital financing, capital financing, or investing.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized in the year for which they are levied. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District eliminates all internal activity.

The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The District follows FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The District has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

C. Cash and Investments

For the statement of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, investments in the State Treasurer's Local Government Investment Pool, and highly liquid investments. All investments are stated at fair value.

D. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

E. Capital Assets

Capital assets are reported at actual cost, or estimated historical cost if historical records are not available. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

	Capitalization Threshold	**Depreciation Method**	**Estimated Useful Life**
Land	$5,000	Not applicable	Not applicable
Buildings	5,000	Straight-line	10 – 40 years
Improvements other than buildings	5,000	Straight-line	20 – 40 years
Equipment	5,000	Straight-line	5 – 10 years
Library books	All	Straight-line	10 years

F. Investment Earnings

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

G. Compensated Absences

Compensated absences payable consists of vacation leave earned by employees based on services already rendered.

Employees may accumulate up to 224 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at the end of August are forfeited. Upon terminating employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees. Therefore, a liability for sick leave benefits is not accrued in the financial statements.

H. Scholarship Allowances

A scholarship allowance is the difference between the stated charge for goods and services the District provides and the amount that is paid by the student or third parties making payments on the student's behalf. Accordingly, some types of student financial aid, such as Pell grants and scholarships awarded by the District, are considered to be scholarship allowances. These allowances are netted against tuition and fees revenues, and bookstore income in the statement of revenues, expenses, and changes in net assets.

Note 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) requires the District to deposit special tax levies for the District's maintenance or capital outlay with the County Treasurer. The statutes do not require the District to deposit other public monies in its custody with the County Treasurer; however, the District must act as a prudent person dealing with another's property when making investment decisions about those monies. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District's investments.

Deposits—At June 30, 2012, the carrying amount of the District's deposits was $2,758,652, and the bank balance was $3,292,796. The District does not have a policy for custodial credit risk.

Investments—The District's investments at June 30, 2012, were as follows:

Investment Type	Amount
State Treasurer's investment pool 5	$13,057,190
County Treasurer's investment pool	22,774,578
Total	$35,831,768

The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's position in the pool approximates the value of that participant's pool shares, and the participant's shares are not identified with specific investments. No comparable oversight is provided for the County Treasurer's investment pool, and that pool's structure does not provide for shares.

Credit risk—The District does not have a formal policy for credit risk. At June 30, 2012, credit risk for the District's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment pool 5	AAAf/S1+	Standard and Poor's	$13,057,190
County Treasurer's investment pool	Unrated	Not applicable	22,774,578
Total			$35,831,768

Custodial Credit Risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the District will not be able to recover the value of its investments or collateral securities that are in an outside party's possession. The District does not have a formal investment policy for custodial credit risk.

Concentration of Credit Risk—The District does not have a formal policy for concentration of credit risk.

Interest Rate Risk—The District does not have a formal policy for interest rate risk. At June 30, 2012, the District had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity
State Treasurer's investment pool 5	$13,057,190	0.8 months
County Treasurer's investment pool	22,774,578	44.3 months
Total	$35,831,768	

A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Assets follows:

Cash, deposits, and investments:		Statement of Net Assets:	
Cash on hand	$ 5,511	Cash and investments	$37,866,658
Amount of deposits	2,758,652	Restricted assets:	
Amount of investments	35,831,768	Cash and investments	729,273
Total	$38,595,931	Total	$38,595,931

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land	$ 709,291			$ 709,291
Construction in progress	11,229	$1,750,687	$ 2,302	1,759,614
Total capital assets not being depreciated	720,520	1,750,687	2,302	2,468,905
Capital assets being depreciated:				
Buildings	32,249,075			32,249,075
Equipment	5,672,624	1,199,524	1,774,846	5,097,302
Improvements other than buildings	7,149,853			7,149,853
Library books	607,533	48,723	50,953	605,303
Total capital assets being depreciated	45,679,085	1,248,247	1,825,799	45,101,533
Less accumulated depreciation for:				
Buildings	$ 8,350,555	$ 780,130		$ 9,130,685
Equipment	4,030,749	351,645	$1,589,010	2,793,384
Improvements other than buildings	2,080,824	185,393		2,266,217
Library books	350,703	49,640	50,953	349,390
Total accumulated depreciation	14,812,831	1,366,808	1,639,963	14,539,676
Total capital assets being depreciated, net	30,866,254	(118,561)	185,836	30,561,857
Capital assets, net	$31,586,774	$1,632,126	$ 188,138	$33,030,762

Note 4 - Construction and Commitments

The District had major contractual commitments related to various capital projects at June 30, 2012. At the White Mountain Campus, located in Show Low, the District committed to a major parking lot expansion that will increase parking for students from less than 200 to over 500, create additional entrances to the campus, improve traffic flow, and prepare the campus for future expansion. At June 30, 2012, the District had spent $180,000 on the project and had remaining contractual commitments with contractors of $2,015,000. Also at this campus, there is $124,000 of building improvements that will be completed in fiscal year 2013. These projects are being financed by unrestricted net assets designated by the District Governing Board for these purposes.

Note 5 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within 1 year
Compensated absences payable	$315,262	$281,767	$248,684	$348,345	$261,259
Capital leases payable	83,123		83,123		
Total long-term debt	$398,385	$281,767	$331,807	$348,345	$261,259

Capital leases—The District acquired information systems equipment under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because it provides for a bargain purchase option.

The assets acquired through capital leases are as follows:	
Information system equipment	$124,684
Less accumulated depreciation	24,937
Carrying value	$ 99,747

Note 6 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with other Arizona community college districts and school districts in the Arizona School Risk Retention Trust, Inc. (Trust), a public entity risk pool. The Trust insures the District against liabilities arising from general liability, professional liability, property, automobile, boiler and machinery, and commercial crime risks. The coverage limit for general liability is $50,000,000 with no deductible except for employer's liability which is $500,000. The coverage limit for professional liability is $300,000 with no deductible. The coverage limit for property insurance is $45,000,000 with a $1,000 deductible. The coverage limit for automobile liability is $10,000,000 with no deductible. The coverage limit for commercial crime is $1,500,000 with a $100 deductible.

The Trust's operating agreement includes a provision for the member to be charged an additional assessment in the event that total claims paid by the Trust exceed the members' contributions and reserves in any one year. The District will be charged for any such assessment in the following year. The District has never been charged such an assessment.

The District also carries commercial insurance for other risks of loss, including workers' compensation, accidental death and dismemberment for students and employees, employee travel, and extended reporting for errors and omissions. Settled claims resulting from these risks have exceeded commercial insurance coverage in two of the past 3 fiscal years; the District reached its life-time, no-fault limit on mold coverage for one campus in 2010. In the years ended June 30, 2011 and June 30, 2010, the District paid additional expenses of $12,805 and $10,175, respectively. There were no uninsured losses in the year ended June 30, 2012. The no-fault mold coverage is limited to $25,000 per campus and covers direct physical loss or damage caused by fungus, wet or dry rot, or bacteria, including the cost of removal and the cost for clearance testing. The limitation is for mold damage not linked to a specific occurrence. Property damage insurance continues to be available for occurrences reported within 30 days of the event.

The District participates with several local school districts in the Navajo County Schools Employee Benefit Trust (Trust). The District uses the Trust to manage risks of loss related to employee health and accident claims. The Trust is a public entity risk pool operating as a common risk management and insurance program for its member school districts. The Trust is funded by irrevocable contributions from the District for employee coverage and from employees for dependent coverage. The Trust, which is managed by a separate board of directors, allows the fund to be self-funded, insured, or both. Additionally, if the Trust becomes insolvent, the District may be assessed, on a pro-rata basis, an additional assessment not to exceed the amount of the annual contribution. Should the District withdraw from the Trust, it would then be responsible for its proportional share of claims and would forfeit all rights to the return of any surplus, unearned contributions, or other legally permitted distributions from the Trust. Whether the District withdraws or the Trust becomes insolvent, the District remains liable for assessments for liabilities of the Trust incurred during the District's period of membership in the Trust. The Trust has not assessed the District any additional assessments above its annual contribution in any of the past 3 fiscal years.

Note 7 - Operating Leases

The District leases land, classroom and office space, information systems equipment, and vehicles under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases were $295,141 for the year ended June 30, 2012. The operating leases have remaining noncancelable terms of 1 to 3 years and provide renewal options.

Of the current rental expenses, $72,501 was paid to the Northland Pioneer College Foundation (Foundation). The nature of the relationship between the District and the Foundation is stated in Note 10. The District entered into an operating lease with the Foundation for a building and parking lot. The term of the lease began February 14, 2006, and continues to February 13, 2015. There is a step-down rental provision of 20 percent that began March 1, 2011, and continues each March 1 thereafter.

The future minimum payments required under the operating leases at June 30, 2012, were as follows:

Year ending June 30	
2013	$ 85,014
2014	43,865
2015	13,182
Total minimum lease payments	$142,061

Note 8 - Pension and Other Postemployment Benefits

Plan descriptions—The District contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 N. Central Ave., P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or 1-800-621-3778.

Funding policy—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll and the District was required by statute to contribute at the actuarially determined rate of 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

The District's contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

Year ended June 30,	**Retirement Fund**	**Health Benefit Supplement Fund**	**Long-Term Disability Fund**
2012	$968,778	$61,837	$23,940
2011	838,641	54,916	23,254
2010	859,122	67,989	41,171

Note 9 - Operating Expenses

The District's operating expenses are presented by functional classification in the Statement of Revenues, Expenses, and Changes in Net Assets—Primary Government. The operating expenses can also be classified into the following:

Personal services	$15,550,537
Contract services	2,680,066
Supplies and other services	3,086,612
Communications and utilities	1,183,082
Scholarships	3,094,923
Depreciation	1,366,808
Other	22,413
Total	$26,984,441

Note 10 - Discretely Presented Component Unit Disclosures

A. Summary of Significant Accounting Policies

The significant accounting policies of Northland Pioneer College Foundation (Foundation) are described below to enhance the usefulness of the financial statements to the reader.

Nature of the Foundation—The Foundation is a not-for-profit corporation operating in accordance with Section 501(c)(3) of the Internal Revenue Code. The Foundation is located in Snowflake, Arizona, and provides supplemental philanthropic support for students, and programs and services that advance the mission of Northland Pioneer College (College). The Foundation receives cash contributions, gifts, membership dues, and rental income, administers and invests securities and property, conducts special-event fundraisers, and disburses payments to the College for educational purposes.

Basis of Accounting—The financial statements have been prepared on the accrual basis of accounting. All revenues received for support of current operations are immediately recorded as revenues while revenues received for support of future operations are deferred and recognized over the periods to which the revenues relate.

Financial Statement Presentation—The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Income Taxes—The Foundation is a public foundation and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 43-1201 of the Arizona Revised Statutes. Therefore, the accompanying financial statements contain no provision or liability for income taxes. In addition, the Foundation qualifies for the charitable deduction under Internal Revenue Section 170(b)(1)(A).

The Foundation files informational tax returns with the U.S. federal and Arizona state governments. With few exceptions, the Foundation is no longer subject to U.S. federal or Arizona state income tax examinations by tax authorities for years before 2008 (federal) and 2007 (Arizona) as of the year ended June 30, 2012.

Contributions—The Foundation records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Endowment Funds—The Foundation is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which requires enhanced disclosures for all its endowment funds. UPMIFA provides the Foundation with guidance on accounting for the net asset classification of such endowment funds.

Discounted or Donated Goods and Services—The Foundation receives certain discounted or donated goods and services that directly benefit the College and the Foundation. Amounts for these discounts and donations have been included in the accompanying financial statements to the extent that a measureable basis exists for their fair values and the corresponding benefit to the Foundation. These discounted or donated goods and services that are received by the Foundation for no value in return are recorded as program and support service expenses and as in-kind donations and are reflected in the financial statements at their fair values. If donated goods merely pass through the Foundation to charitable beneficiaries, and if the Foundation is only an agent for the donors, no contribution is recorded.

Property Held for Sale—Certain assets are received from donors by the Foundation and are held for resale. Such assets are recorded at their approximate fair market value at the date of donation. Property held for sale as of June 30, 2012, is reported as real estate investments.

Investments—Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets.

Property & Equipment—Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value on the date of donation. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets, which range from 10 – 40 years.

Date of Management's Review—Management has reviewed events subsequent to June 30, 2012, up through the financial statements report date, September 26, 2012, to evaluate their effect on the fair presentation of the financial statements. As of the report date, there have been no events subsequent to June 30, 2012, that are required to be disclosed in order to present fairly the financial position and changes in net assets of the Foundation.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Major Concentrations—During the year ended June 30, 2012, one donor's contributions comprised 11.97 percent of total support and revenue.

B. Cash

The total cash held by the Foundation at June 30, 2012, is as follows:

Checking	$ 3,463
Money market	29,964
Savings	8,718
Petty cash	200
	$42,345
Unrestricted cash	$33,654
Restricted cash	8,691
	$42,345

C. Investments

For the year ended June 30, 2012, investments consisted of marketable securities held with Edward Jones and real estate comprising several lots of land. The marketable securities have a fair value of $97,719 and the real estate totals $12,000 as of June 30, 2012.

D. Restrictions on Net Assets

Temporarily restricted net assets in the amounts of $23,648 as of June 30, 2012, consist of donated contributions and investment earnings, which are available for scholarships in future years. Permanently restricted net assets of $82,442 as of June 30, 2012, represent two endowed scholarship funds.

E. Related Parties

For the year ended June 30, 2012, the Foundation subcontracted its Executive Director and makes payments to Chugg Financial Services, LLC, a company that is owned and operated by its Executive Director.

F. Endowment Funds

The Foundation’s endowment consists of two funds established for the Charles E. Lisitsky Scholarship and the Martia A. Smith Memorial Art Scholarship. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation’s investment policies.

As of June 30, 2012, the endowment funds consisted of temporarily restricted net assets of $14,957 and permanently restricted net assets of $82,442, for a total of $97,399.

Supplementary Information

Navajo County Community College District
(Northland Pioneer College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
Workforce Investment Act (WIA) Cluster:			
WIA Adult Program, passed through the White Mountain Apache Tribe	17.258	AB171810855A4	$ 124,233
U.S. Small Business Administration			
Small Business Development Centers, passed through Maricopa County Community College District	59.037	SBAHQ-12-B-0046	85,109
U.S. Department of Education			
Adult Education—Basic Grants to States, passed through the Arizona Department of Education	84.002	V002A1100003	284,584
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		68,903
Federal Work-Study Program	84.033		80,078
Federal Pell Grant Program	84.063		3,436,660
Academic Competitiveness Grants	84.375		676
Total Student Financial Assistance Cluster			3,586,317
Higher Education—Institutional Aid	84.031		435,509
Career and Technical Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	V048A100003, V048A110003	205,085
Leveraging Educational Assistance Partnership, passed through the Arizona Commission for Postsecondary Education	84.069	None	32,483
Tech-Prep Education, passed through the Arizona Department of Education	84.243	V243A000003	52,253
Total U.S. Department of Education			4,596,231
Total Expenditures of Federal Awards			$ 4,805,573

See accompanying notes to schedule.

Navajo County Community College District
(Northland Pioneer College)
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Navajo County Community College District and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the 2012 *Catalog of Federal Domestic Assistance* or from the federal or pass-through grantor.

Note 3 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2012.

(This page is left intentionally blank)

STATE OF ARIZONA

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Governing Board of
Navajo County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Navajo County Community College District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 26, 2012. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Northland Pioneer College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. The financial statements of the Northland Pioneer College Foundation were not audited by the other auditors in accordance with *Government Auditing Standards*. The Northland Pioneer College Foundation did not provide the reported results of the other auditors' testing of internal control over its financial reporting. Consequently, this report does not include our consideration of the other auditors' testing of internal control over financial reporting that is reported on separately by those other auditors.

Internal Control over Financial Reporting

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 12-01 and 12-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Navajo County Community College District's responses to the findings identified in our audit are presented on pages 37 through 41. We did not audit the District's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

November 26, 2012

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Members of the Arizona State Legislature

The Governing Board of
Navajo County Community College District

Compliance

We have audited Navajo County Community College District's compliance 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 its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 we 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in items 12-101 and 12-102 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with the requirements regarding procurement and suspension and debarment and allowable costs/cost principles that are applicable to its Higher Education—Institutional Aid program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

In our opinion, because of the effects of the noncompliance described in the preceding paragraph for the Higher Education—Institutional Aid program, Navajo County Community College District did not comply, in all material respects, with the requirements referred to above that could have a direct and material effect on that program. Also, in our opinion, Navajo County Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 a combination of deficiencies, in internal control over compliance, such that there is 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 12-101, 12-102, and 12-103 to be material weaknesses.

Navajo County Community College District's responses to the findings identified in our audit are presented on pages 37 through 41. We did not audit the District's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

November 26, 2012

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Summary of Auditors' Results

Financial Statements

	Yes	No
Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weaknesses identified?	X	
Significant deficiencies identified?		X (None reported)
Noncompliance material to the financial statements noted?		X

Federal Awards

	Yes	No
Internal control over major programs:		
Material weaknesses identified?	X	
Significant deficiencies identified?		X (None reported)

Type of auditors' report issued on compliance for major programs: Unqualified for all major programs except for the Higher Education—Institutional Aid program, for which an adverse opinion was expressed.

	Yes	No
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	X	

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grants
84.031	Higher Education—Institutional Aid

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
	Yes	**No**
Auditee qualified as low-risk auditee?	___	X

Other Matters

	Yes	**No**
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	X	___

Financial Statement Findings

12-01

The District needs to establish policies and procedures for granting access and making changes to its information systems

Criteria: The District should have effective system access controls to help prevent and detect unauthorized use, damage, loss, or modification of programs and data, including sensitive and confidential information. In addition, the District should follow the policies and procedures in place to ensure that the integrity of the systems' information is protected against unauthorized system and program changes.

Condition and context: The District did not adequately control, restrict, and monitor logical access to its information systems during the year. Access granted was not always adequately controlled, since for three out of ten users tested, access was either not supported by documentation or not approved by the user's supervisor. Also, access for users whose employment was terminated was not always removed in a timely manner. Additionally, elevated access granted to the system was not properly controlled and restricted to only those users who needed it, and was not assigned to specific individuals to establish accountability. Further, the activity of users with elevated access was not periodically monitored. Specifically, auditors noted 13 access accounts that allowed elevated access for which no one person was accountable because the accounts were not assigned to specific individuals. Of these accounts, three accounts allowed changes to be made directly to the system's database. Auditors also noted four users who were assigned a high level of access which allowed them to make changes directly to the system's database when this access was either unnecessary or inappropriate for the job responsibilities. Finally, the District did not have policies and procedures in place to ensure that all system changes were properly documented, authorized, tested, reviewed, and approved prior to implementation.

Effect: There is an increased risk of theft, manipulation, or misuse of financial, sensitive, or confidential information by unauthorized users or by users whose access was not adequately controlled, restricted, and monitored. In addition, inadequate change management controls could lead to unauthorized changes to systems and programs and to the manipulation of data they contain.

Cause: The District has used the same information systems for many years, and had not established formal policies and procedures for granting access and making changes to them.

Recommendation: The District should establish policies and procedures to strengthen access controls and help prevent or detect unauthorized use, damage, or loss of information. These procedures should include the following:

- Restrict elevated and unlimited system access to only those individuals who need that level of access.
- Establish accountability for access granted by assigning access accounts to specific individual users, rather than using generic user accounts.

- Develop a standardized form to document granting or revoking system access and the associated approvals and retain completed authorization forms.
- Perform a comprehensive review of all existing system users annually to ensure that access granted is compatible with their job responsibilities.
- Immediately remove access rights for employees who have terminated employment or transferred to another department.
- Monitor direct database changes and system access for unusual or suspicious activity.
- Require that changes to systems and programs be documented, authorized, tested, reviewed, and approved prior to implementation.
- Separate the responsibilities for developing and implementing changes from the responsibilities of authorizing, testing, and approving changes. Changes initiated by users should also be approved by users.
- Maintain documentation for testing changes and the results.

This finding is similar to a prior-year finding.

12-02
The District should develop and test a disaster recovery plan for its information systems

Criteria: It is critical that the District have an up-to-date contingency plan in place to provide for the continuity of operations and to ensure that data can be recovered in the event of a system or equipment failure or other system interruption. Data should be backed up in the event that a recovery is needed and encrypted to protect information while being stored on tape.

Condition and context: The District did not have a comprehensive disaster recovery plan for its information systems used to process and store financial and student information that is vital to its daily operations. In addition, while the District did back up its data, it did not log or track the backup tapes that were to be used to recover information for the District in the event of a disaster. Further, the District did not encrypt the tapes to protect sensitive information while being stored.

Effect: The District risks the ability to recover financial and student information and conduct daily operations in the event of a system or equipment failure or other interruption. In addition, without a log of its backup tapes, the District risks the ability to fully recover data in a timely manner. Additionally, without encrypting backup tapes, the District risks unauthorized use and disclosure of sensitive and confidential information if tapes are misplaced, lost, or stolen.

Cause: The District lacked policies and procedures for recovering its information systems and operations in the event of a disaster, and did not dedicate resources to establish and maintain a comprehensive disaster recovery plan.

Recommendation: To help ensure the continuity of the District's operations in the event of a system or equipment failure or other system interruption, the District should develop and implement a disaster recovery plan that includes the following policies and procedures:

- Perform a risk analysis identifying and prioritizing the critical applications to determine which applications should be recovered first.
- Communicate and distribute a copy of the disaster recovery plan to all affected employees.
- Maintain a copy of the disaster recovery plan off-site.
- Make arrangements for a designated physical recovery facility.
- Make arrangements with vendors to support hardware and software requirements.
- Maintain a log of backup tapes and develop a process for identifying tapes in the event they are needed.
- Encrypt backup tapes.
- List procedures for processing critical applications.
- Test and document the plan annually and update the plan for any problems noted.

This finding is similar to a prior-year finding.

Federal Award Findings and Questioned Costs

12-101
CFDA No.: 84.031 **Higher Education—Institutional Aid**
U.S. Department of Education
Award Period: October 1, 2010 through September 30, 2015
Procurement and suspension and debarment

Questioned Cost: None

Criteria: The District should have policies and procedures to ensure that contracts greater than $25,000 and subawards of federal monies are not made to an entity that is suspended or debarred from doing business with the federal government in accordance with 34 Code of Federal Regulations (CFR) §74.13.

Condition and context: The District paid six contractors approximately $287,000 during the year; however, the District did not have procedures to obtain assurance or otherwise verify that the contractors were not suspended or debarred prior to awarding the contracts. Each of the six contractors received over $25,000.

Effect: The District did not comply with the program's requirements for procurement and suspension and debarment. Further, without adequate policies and procedures, the District risks awarding federal monies to entities that may be suspended or debarred. Auditors extended auditing procedures and determined that the contractors were not suspended or debarred; therefore, there were no questioned costs noted for this finding. This finding has the potential to affect other federal programs that the District administers.

Cause: The District lacked policies and procedures for obtaining assurance and verifying that contractors are not suspended or debarred.

Recommendation: The District should establish policies and procedures to obtain assurance or otherwise verify that contracts greater than $25,000 and subawards of federal monies are made to parties that have not been suspended or debarred from doing business with the federal government and retain documentation of this determination. Verification may be accomplished by checking the Excluded Parties List System, obtaining vendor certifications, or adding clauses or conditions to contracts.

12-102
CFDA No.: 84.031 **Higher Education—Institutional Aid**
U.S. Department of Education
Award Period: October 1, 2010 through September 30, 2015
Allowable costs/cost principles
Questioned Cost: None

Criteria: The District should have policies and procedures to ensure that employee compensation charged to federal programs is supported by records and represents employees' actual time and effort worked on federal programs. Specifically, 2 CFR §220, Appendix A, Section J(10), requires the District to maintain records that certify or confirm on an after-the-fact basis that employee compensation charged to federal programs represents a reasonable distribution of employees' actual time and effort worked on federal programs. In addition, such records should be retained for at least 3 years to comply with 34 CFR §80.42.

Condition and context: The District did not certify that employee compensation of approximately $79,000 charged to the program during the year represented the employees' actual time and effort spent on the federal program. Specifically, the District had only one employee who worked solely on the program; however, the employee did not prepare documentation certifying that 100 percent of his time and effort was spent working on the program.

Effect: The District did not comply with the cost principles requirements outlined in 2 CFR §220, Appendix A, Section J(10). Auditors were able to perform additional auditing procedures to determine that the employee was authorized to work, and did work, solely on the program as allowed by the grant agreement; therefore, no questioned costs were noted for this finding. This finding has the potential to affect other federal programs the District administers.

Cause: The District lacked policies and procedures for certifying or confirming employees' time and effort spent on federal programs.

Recommendation: To comply with 2 CFR §220, Appendix A, Section J(10), and to help ensure that employee compensation charged to federal programs is allowable and properly supported, the District should establish policies and procedures for certifying or confirming on an after-the-fact basis that employee compensation charged to federal programs represents employees' actual time and effort spent on federal programs. This certification should be maintained in the District's records and should be prepared and signed by the employee. In addition, the employee's supervisor or other responsible individual having first-hand knowledge or suitable means to verify the work performed by the employee should review and approve the certification.

12-103
CFDA No.: 84.031 **Higher Education—Institutional Aid**
U.S. Department of Education
Award Period: October 1, 2010 through September 30, 2015
Level of effort

Questioned Cost: None

Criteria: The District's grant agreement stipulated that 25 percent of the program director's time and effort be spent on program activities. Therefore, the District should have policies and procedures to ensure that level of effort requirements are met in accordance with the grant agreement.

Condition and context: The District did not have adequate records to support that the program director spent 25 percent of his time and effort on program activities as required by the grant agreement.

Effect: Because supporting documentation was not prepared and maintained to record the program director's time and effort spent on program activities, the District risks noncompliance with the level of effort requirement stipulated in the grant agreement. Auditors were able to perform further auditing procedures to determine that the program director reasonably met the required level of effort by examining other documentation evidencing the program director's time and effort spent on program activities; therefore, no questioned costs were noted for this finding. This finding has the potential to affect other federal programs the District administers.

Cause: The program director did not prepare time sheets or other detailed documentation to record the amount of time and effort spent on federal and nonfederal activities because the position was a salaried position, and the District did not require salaried employees to prepare time sheets. Also, as described in item 12-102, the District lacked policies and procedures for certifying or confirming employees' time and effort spent on federal programs.

Recommendation: To comply with the grant agreement's level of effort requirements, the District should establish policies and procedures for recording employees' time and effort, or otherwise certifying or confirming on an after-the fact basis employees' time and effort on federal programs.

(This page is left intentionally blank)

November 14, 2012

Ms. Debra K. Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the standards applicable to financial audits contained in *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the corrective action planned for the financial reporting findings and the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

V. Blaine Hatch
Vice President for Administrative Services

Navajo County Community College District
(Northland Pioneer College)
Corrective Action Plan
Year ended June 30, 2012

Financial Statement Findings

12-01
The District needs to establish policies and procedures for granting access and making changes to its information systems

Eric Bishop, Director of Information Services
Anticipated completion date: June 30, 2013

Corrective Action Plan:

The District is aware of the issues related to its information systems and concurs with the finding and recommendations. The District will continue with its efforts to develop policies, procedures and mechanisms to strengthen access and change management controls related to its computer systems.

The District has put into place the following procedures:

- Developed and approved a standardized form to document when system access is granted and revoked.
- Developed a change management process and standardized form.

The District will continue to work on the following:

- Work with ERP vendor and seek consultation to help find the proper balance of access levels related to job responsibilities and overall system security.
- Solidify process for removing users from the system on termination of employment and verifying access levels to staff members who change roles within the institution.
- Minimize number of users who have elevated access to the system and work with ERP vendor to develop a means to monitor the activities of those users. The District is unable to remove accounts not assigned to specific individuals (generic user accounts) due to system architecture constraints.
- Audit user access permissions on an annual basis.
- Work internally and with outside vendors to conduct a risk analysis of computing systems.

The District has been working on the recommendation for six months and will continue with its efforts.

12-02
The District should develop and test a disaster recovery plan for its information systems

Eric Bishop, Director of information Services
Anticipated completion date: June 30, 2013

Corrective Action Plan:

The District is aware of the issue related to disaster recovery and concurs with the finding and recommendation. The District will develop policies, procedures and mechanisms to maintain a comprehensive disaster recovery plan. Some work has already been done but has not been formalized of finalized. Specifically, the District will:

- Perform a risk analysis of all information systems.
- Continue to work internally to develop a comprehensive disaster recovery plan and distribute this plan to multiple users both inside and outside of the IS Division.
- Develop a schedule for testing the new disaster recovery plan.
- Continue to backup system data to take and store at an off-site location.
- Encrypt data stored on backup tapes.
- Log backup tapes as they leave data center locations and when they arrive at off-site storage sites.
- Continue efforts to create a fully functional, redundant data center to provide high availability to our systems and associated data.

The District will continue with its efforts to implement the recommendations.

Federal Award Findings and Questioned Costs

12-101
CFDA No.: 84.031 **Higher Education—Institutional Aid**
John Bremer, Controller, and Eric Bishop, Director of IS & Title III Grant/Program Director
Completion Date: January 1, 2013

Corrective Action Plan:

The District has been made aware of procedural requirements related to awarding contracts of federal monies and concurs with the finding and the recommendation. The District has developed draft procedures to require that all contracts greater than $25,000 and all subawards of federal monies are made to parties that have not been suspended or debarred from doing business with the federal government and will retain documentation of this determination. The draft procedures have been followed for approximately six months, but require further revision to ensure the $25,000 threshold for contracts is based on an aggregate amount of spending and not a unit transaction amount.

Navajo County Community College District
(Northland Pioneer College)
Corrective Action Plan
Year ended June 30, 2012

12-102
CFDA No.: 84.031 **Higher Education—Institutional Aid**
John Bremer, Controller, and Eric Bishop, Director of IS & Title III Grant/Program Director
Completion Date: January 1, 2013

Corrective Action Plan:

The District has been made aware of procedural requirements related to employee compensation charged to federal programs and concurs with the finding and recommendation. The District will establish procedures to certify that employee compensation charged to federal programs is supported by records and represents actual time and effort worked on federal programs. This certification will be maintained in the District's records and will be prepared and signed by the employee on a periodic basis. In addition, the employee's supervisor, or other responsible individual having first-hand knowledge to verify the work performed by the employee, will review and approve the certification.

12-103
CFDA No.: 84.031 **Higher Education—Institutional Aid**
John Bremer, Controller, and Eric Bishop, Director of IS & Title III Grant/Program Director
Completion Date: January 1, 2013

Corrective Action Plan:

The District has been made aware of procedural requirements related to records kept to show compliance with level of effort program requirements in accordance with the grant agreement and concurs with the finding and recommendation. The District will establish procedures for recording employees' time and effort, or otherwise certifying on a quarterly basis the employees' time and effort spent on federal programs.

November 14, 2012

Ms. Debra K. Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

V. Blaine Hatch
Vice President for Administrative Services

Navajo County Community College District
(Northland Pioneer College)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Status of Prior Year Federal Award Findings and Questioned Costs

CFDA Number: 84.048 Career and Technical Education—Basic Grants to States, U.S. Department of Education
Finding Number: **11-101**
Status: Fully Corrected

CFDA Number: 84.048 Career and Technical Education—Basic Grants to States, U.S. Department of Education
Finding Number: **11-102**
Status: Not Corrected. The District has developed draft procedures to ensure that contracts greater than $25,000 and all subawards of federal monies are made to parties that have not been suspended or debarred and will retain documentation of this determination. The draft procedures have been followed for approximately six months, but require further revision to ensure the $25,000 threshold for contracts is based on an aggregate amount of spending and not a unit transaction amount. The draft procedures will be revised and finalized by January 1, 2013.