



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

**Navajo County
Community College
District**

(Northland Pioneer College)

Year Ended June 30, 2002



Debra K. Davenport
Auditor General

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Navajo County Community College District
(Northland Pioneer College)
Single Audit Reporting Package
June 30, 2001

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
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 balance sheet of Navajo County Community College District as of June 30, 2001, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Navajo County Community College District as of June 30, 2001, and the changes in its fund balances and its current funds revenues, expenditures, and other changes for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements of Navajo County Community College District taken as a whole. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport
Auditor General

February 28, 2003

Navajo County Community College District
(Northland Pioneer College)
Balance Sheet
June 30, 2001

Assets	Current Funds				Endowment Fund	Plant Funds			Agency Fund
	Unrestricted		Restricted	Total Current Funds		Unexpended	Retirement of Indebtedness	Investment in Plant	
	General	Auxiliary Enterprises							
Cash and cash equivalents	\$ 329,996	\$ 1,700		\$ 331,696	\$ 10,500				\$ 30,034
Investments	1,762,315			1,762,315		\$ 8,247,743	\$ 699,679		
Receivables:									
Property taxes (net of allowances)	287,067			287,067			94,419		
Government grants			\$ 309,389	309,389					
Student loans (less allowance of \$435,524)	601,731			601,731					
Other	4,134	48,345		52,479					
Prepaid expenses	494			494					
Due from other funds	3,565,046		21,387	3,586,433					
Inventories		177,347		177,347					
Property, buildings, and equipment:									
Land, buildings, and improvements								\$ 18,931,435	
Equipment								11,170,006	
Library books								968,505	
Construction in progress (estimated costs to complete \$5,127,526)								5,488,497	
Total assets	\$ 6,550,783	\$ 227,392	\$ 330,776	\$ 7,108,951	\$ 10,500	\$ 8,247,743	\$ 794,098	\$ 36,558,443	\$ 30,034

(Continued)

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Balance Sheet
June 30, 2001
(Continued)

Liabilities and Fund Balances	Current Funds				Endowment Fund	Plant Funds			Agency Fund
	Unrestricted		Restricted	Total Current Funds		Unexpended	Retirement of Indebtedness	Investment in Plant	
	General	Auxiliary Enterprises							
Liabilities:									
Accounts payable	\$ 256,728	\$ 15,067	\$ 84,124	\$ 355,919		\$ 703,805			\$ 421
Accrued liabilities	333,199	3,297	8,097	344,593					
Deposits held in custody for others	50			50					29,613
Due to other funds		292,997		292,997		2,458,442	\$ 834,994		
Due to grantors			13,789	13,789					
Certificates of participation payable								\$ 1,535,000	
Bonds payable								10,705,000	
Deferred revenues	12,752			12,752					
Total liabilities	602,729	311,361	106,010	1,020,100		3,162,247	834,994	12,240,000	30,034
Fund balances:									
Restricted:									
Endowment					\$ 10,500				
General			224,766	224,766		5,085,496	(40,896)		
Unrestricted:									
Designated	1,500,000			1,500,000					
Undesignated	4,448,054	(83,969)		4,364,085					
Net investment in plant								24,318,443	
Total fund balances	5,948,054	(83,969)	224,766	6,088,851	10,500	5,085,496	(40,896)	24,318,443	
Total liabilities and fund balances	\$ 6,550,783	\$ 227,392	\$ 330,776	\$ 7,108,951	\$ 10,500	\$ 8,247,743	\$ 794,098	\$ 36,558,443	\$ 30,034

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Changes in Fund Balances
Year Ended June 30, 2001

	Current Funds				Endowment Fund	Plant Funds		
	Unrestricted		Restricted	Total Current Funds		Unexpended	Retirement of Indebtedness	Investment in Plant
	General	Auxiliary Enterprises						
Revenues and other additions:								
Unrestricted current revenues	\$ 15,191,571	\$ 891,297		\$ 16,082,868				
Property taxes						\$ 1,501,024		
State appropriations					\$ 419,600			
Governmental grants and contracts			\$ 2,893,446	2,893,446				
Private gifts, grants, and contracts			212,617	212,617			\$ 54,330	
Tuition and fees			11,884	11,884				
Investment income			1,559	1,559	442,184	65,644		
Expended for plant facilities (including \$276,071 of expenditures charged to current funds)							4,049,396	
Retirement of indebtedness							1,060,000	
Proceeds from sale of land and buildings					408,000			
Proceeds from lawsuit settlement					919,381			
Other			47,635	47,635	2,032			
Total revenues and other additions	<u>15,191,571</u>	<u>891,297</u>	<u>3,167,141</u>	<u>19,250,009</u>	<u>2,191,197</u>	<u>1,566,668</u>	<u>5,163,726</u>	
Expenditures and other deductions:								
Educational and general expenditures	13,058,518		3,013,769	16,072,287				
Auxiliary enterprises expenditures		1,597,556		1,597,556				
Indirect costs recovered			17,382	17,382				
Provision for bad debts	37,788			37,788		6,206		
Expended for plant facilities (including noncapitalized expenditures of \$9,569)					3,782,894			
Retirement of indebtedness						1,060,000		
Interest on indebtedness						714,458		
Disposal of plant facilities							730,318	
Other						129,343		
Total expenditures and other deductions	<u>13,096,306</u>	<u>1,597,556</u>	<u>3,031,151</u>	<u>17,725,013</u>	<u>3,782,894</u>	<u>1,910,007</u>	<u>730,318</u>	

(Continued)

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Changes in Fund Balances
Year Ended June 30, 2001
(Continued)

	Current Funds				Endowment Fund	Plant Funds		
	Unrestricted		Restricted	Total Current Funds		Unexpended	Retirement of Indebtedness	Investment in Plant
	General	Auxiliary Enterprises						
Transfers among funds—additions (deductions):								
Mandatory transfers for:								
Principal and interest	\$ (180,598)	\$ (69,000)		\$ (249,598)		\$ 249,598		
College matching portion of government grants	(13,381)		\$ 13,381					
Total mandatory transfers	(193,979)	(69,000)	13,381	(249,598)		249,598		
Nonmandatory transfers (net)	(1,779,453)	272,693		(1,506,760)		\$ 1,500,000	6,760	
Total transfers	(1,973,432)	203,693	13,381	(1,756,358)		1,500,000	256,358	
Net increase (decrease) for the year	121,833	(502,566)	149,371	(231,362)		(91,697)	(86,981)	4,433,408
Fund balances, July 1, 2000	5,826,221	418,597	75,395	6,320,213	\$ 10,500	5,177,193	46,085	19,885,035
Fund balances (deficits), June 30, 2001	<u>\$ 5,948,054</u>	<u>\$ (83,969)</u>	<u>\$ 224,766</u>	<u>\$ 6,088,851</u>	<u>\$ 10,500</u>	<u>\$ 5,085,496</u>	<u>\$ (40,896)</u>	<u>\$ 24,318,443</u>

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Current Funds Revenues, Expenditures, and Other Changes
Year Ended June 30, 2001

	<u>Unrestricted</u>			<u>Restricted</u>	<u>Total Current Funds</u>
	<u>General</u>	<u>Auxiliary Enterprises</u>	<u>Total</u>		
Revenues:					
Property taxes	\$ 5,972,584		\$ 5,972,584		\$ 5,972,584
State appropriations	5,589,900		5,589,900		5,589,900
Governmental grants and contracts	639,191		639,191	\$ 2,726,693	3,365,884
Private gifts, grants, and contracts				212,617	212,617
Tuition and fees	2,529,755	\$ 36,957	2,566,712	11,884	2,578,596
Investment income	308,942		308,942	1,559	310,501
Bookstore sales		777,747	777,747		777,747
Dormitory rentals		46,550	46,550		46,550
Other	151,199	30,043	181,242	47,635	228,877
Total revenues	<u>15,191,571</u>	<u>891,297</u>	<u>16,082,868</u>	<u>3,000,388</u>	<u>19,083,256</u>
Expenditures and mandatory transfers:					
Educational and general expenditures:					
Instruction	5,760,096		5,760,096	306,880	6,066,976
Public service				184,983	184,983
Academic support	731,461		731,461		731,461
Student services	739,015		739,015	2,109,421	2,848,436
Institutional support (administration)	4,418,919		4,418,919	48,697	4,467,616
Operation and maintenance of plant	1,241,617		1,241,617	2,027	1,243,644
Scholarships	167,410		167,410	361,761	529,171
Total educational and general expenditures	<u>13,058,518</u>		<u>13,058,518</u>	<u>3,013,769</u>	<u>16,072,287</u>
Auxiliary enterprises expenditures		1,597,556	1,597,556		1,597,556
Provision for bad debts	37,788		37,788		37,788
Total expenditures	<u>13,096,306</u>	<u>1,597,556</u>	<u>14,693,862</u>	<u>3,013,769</u>	<u>17,707,631</u>
Mandatory transfers for:					
Principal and interest	180,598	69,000	249,598		249,598
College matching portion of government grants	13,381		13,381	(13,381)	
Total mandatory transfers	<u>193,979</u>	<u>69,000</u>	<u>262,979</u>	<u>(13,381)</u>	<u>249,598</u>
Total expenditures and mandatory transfers	<u>13,290,285</u>	<u>1,666,556</u>	<u>14,956,841</u>	<u>3,000,388</u>	<u>17,957,229</u>
Other transfers and additions (deductions):					
Excess of restricted receipts over transfers to revenues				149,371	149,371
Nonmandatory transfers (net)	(1,779,453)	272,693	(1,506,760)		(1,506,760)
Net increase (decrease) in fund balances	<u>\$ 121,833</u>	<u>\$ (502,566)</u>	<u>\$ (380,733)</u>	<u>\$ 149,371</u>	<u>\$ (231,362)</u>

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2001

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Navajo County Community College District conform to U.S. generally accepted accounting principles as applied to governmental colleges and universities in the AICPA College Guide model as defined in Governmental Accounting Standards Board Statement No. 15. A summary of the District's more significant accounting policies follows.

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. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity.

The financial activities of the Northland Pioneer College Foundation are not included in the District's financial statements. The Foundation is a nonprofit corporation controlled by a separate board of directors. The Foundation's goals are to promote educational programs and District objectives.

B. Fund Accounting

The District's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the District's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Accounts are separately maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, financial transactions are reported by fund groups as if each fund group was a single fund. A description of the funds follows.

The *Current Funds* account for resources that will be expended in the near term for operating purposes in performing the District's primary and support missions, which are instruction, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships, and auxiliary enterprises. The individual Current Funds are described more fully as follows:

The General Fund accounts for all current financial resources not required to be accounted for in the other Current Funds.

Navajo County Community College District
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Notes to Financial Statements
June 30, 2001

The Auxiliary Enterprises Fund accounts for transactions of substantially self-supporting auxiliary activities that perform services primarily to students, faculty, and staff, such as bookstores, food services, dormitories, and intercollegiate athletics.

The Restricted Fund accounts for resources that are expended only for operating purposes specified by donors or other outside agencies. The Restricted Fund's revenues are reported in the statement of current funds revenues, expenditures, and other changes only to the extent of expenditures and net mandatory transfers. Amounts received in excess of expenditures and net mandatory transfers are reported as additions to the fund balance during the year, and may be subject to repayment if not expended.

The *Endowment Fund* accounts for assets subject to restrictions requiring the principal to be invested permanently or for a certain period of time, although investment income may be expended. The resources may either be restricted by the donor or designated by the Governing Board.

The *Plant Funds* account for transactions relating to the District's investment in plant assets such as property, buildings, and equipment. The individual Plant Funds are described more fully as follows:

The Unexpended Plant Fund accounts for resources available to finance the District's acquisition, construction, or improvement of plant assets. Expenditures for construction in progress are accumulated in this fund until the project is completed or until the end of the fiscal year and then transferred to the Investment in Plant Fund. Resources restricted for renewals and replacements of existing District plant assets are also recorded in the Unexpended Plant Fund.

The Retirement of Indebtedness Plant Fund accounts for the accumulation of resources for payment of principal, interest, and other debt service charges, including contributions for sinking funds relating to debt incurred in financing District plant assets.

The Investment in Plant Fund accounts for the costs of the District's plant assets and the associated liabilities, except for such assets accounted for in the Endowment Fund. Assets recorded in the Investment in Plant Fund may be acquired from resources in the Unexpended Plant, Auxiliary Enterprises, and Restricted Funds.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2001

The *Agency Fund* accounts for resources held by the District as custodian or fiscal agent for students, faculty, staff, and other organizations; therefore, the transactions within this fund do not affect the statement of changes in fund balances.

C. Basis of Accounting

The financial statements are presented on the accrual basis of accounting. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not claim to present the results of operations, or the net income or loss for the period as would a statement of income, or a statement of revenues and expenses.

D. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

Investments consist of District monies on deposit with the State and County Treasurer's investment pools. Investments are stated at fair value.

E. Inventories

The bookstore inventory is stated at the lower of cost (first-in, first-out method) or market.

F. Property, Buildings, and Equipment

Property, buildings, and equipment are capitalized at cost if purchased, or estimated fair market value at the time received in the case of gifts. Major outlays for assets or improvements to them are capitalized as projects are constructed.

To the extent that current fund monies are used to finance such assets, the amounts so provided are accounted for as expenditures in the case of normal acquisition or replacement of movable equipment and library books; mandatory transfers (transfers among funds resulting from legally binding agreements) in the case of required provisions for debt amortization and interest, and equipment renewal and replacement; or nonmandatory transfers (transfers among funds made at the discretion of the Governing Board) in other cases.

Depreciation on buildings and equipment is not recorded.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2001

G. Compensated Absences

Compensated absences consist only of vacation leave and a calculated amount of sick 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. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and therefore, are not accrued.

H. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments. Income earned from investments purchased with pooled monies is allocated to each of the District's funds on a pro rata basis.

I. Summer Sessions

Summer sessions revenues and expenditures are reported in the General Fund within the fiscal year in which the total summer sessions program is predominately conducted.

Note 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) require the District to deposit special tax levies for the District's maintenance or capital outlay with the County Treasurer. Although not statutorily required, the District has also chosen to deposit other public monies in its custody with the County Treasurer.

Deposits—At June 30, 2001, the carrying amount of the District's deposits was \$355,630, and the bank balance was \$716,178. Of the bank balance, \$222,405 was covered by federal depository insurance; \$453,740 was covered by collateral held by the pledging financial institution's trust department or agent in the District's name; and \$40,033 was uninsured and uncollateralized.

Investments—At June 30, 2001, the District's investments consisted of the following.

	<u>Fair Value</u>
Cash and investments held by the County Treasurer	\$ 2,245,179
Investment in State Treasurer's investment pool	<u>8,464,558</u>
Total	<u>\$10,709,737</u>

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2001

The District's investment in the State or County Treasurer's investment pools represents a proportionate interest in those pools' portfolios; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk.

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. No comparable oversight is provided for the County Treasurer's investment pool, and that pool's structure does not provide for shares.

A reconciliation of cash and investments to amounts shown on the balance sheet follows.

Cash and investments:		Balance sheet:	
Cash on hand	\$ 16,600	Cash and cash equivalents	\$ 372,230
Carrying amount of deposits	355,630	Investments	<u>10,709,737</u>
Reported amount of investments	<u>10,709,737</u>	Total	<u>\$11,081,967</u>
Total	<u>\$11,081,967</u>		

Note 3 - Property Taxes Receivable

The Navajo County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business day in November and May. A lien assessed against real and personal property attaches on the first day of January preceding the assessment and levy.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2001, the uncollected property taxes and related allowances for uncollectibles were as follows:

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2001

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Retirement of Indebtedness</u>
2000-01	\$ 311,813	\$79,248
Prior	<u>75,254</u>	<u>15,171</u>
	387,067	94,419
Less allowance for uncollectibles	<u>(100,000)</u>	_____
Net total	<u>\$ 287,067</u>	<u>\$94,419</u>

Note 4 - Bonds Payable

In July 1995, the District issued \$15,600,000 in general obligation bonds, with an average interest rate of 5.36 percent. The proceeds were used to construct permanent educational facilities, finance various telecommunications equipment and improvements to other existing equipment, and pay costs relating to the issuance of the bonds. The bonds are generally callable with interest payable semiannually.

Principal and interest requirements at June 30, 2001, were as follows:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Maturities</u>	<u>Outstanding Principal</u>
General Obligation Bonds	5.0—7.0%	7/1/01—2010	\$10,705,000

General obligation bond debt service requirements to maturity, including \$2,938,960 of interest, are as follows:

Year ending June 30,		
	2002	\$ 1,507,675
	2003	1,504,675
	2004	1,509,425
	2005	1,511,425
	2006	1,514,560
	Thereafter	<u>6,096,200</u>
	Total	<u>\$13,643,960</u>

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2001

Note 5 - Certificates of Participation Payable

In April 1994, the District issued \$2,410,000 in certificates of participation with an average interest rate of 6.17 percent. Of the total proceeds, \$1,500,000 was used to construct a classroom building in Show Low, Arizona, and the remaining \$910,000 was obligated to advance refund outstanding series 1990 revenue bonds by placing it in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2001, \$715,000 of defeased bonds are outstanding.

The certificates are generally callable with interest payable semiannually.

Principal and interest requirements at June 30, 2001, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal</u>
Certificates of Participation	5.9—6.55%	7/1/01—2009	\$1,535,000

Certificates of participation debt service requirements to maturity, including \$462,449 of interest, are as follows:

Year ending June 30,		
	2002	\$ 251,188
	2003	252,042
	2004	252,142
	2005	246,468
	2006	250,308
	Thereafter	<u>745,301</u>
	Total	<u>\$1,997,449</u>

Note 6 - Obligations Under Operating Leases

The District leases land, buildings, and equipment under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$15,631 for the year ended June 30, 2001. The operating leases have remaining noncancelable lease terms from four to thirteen years and provide renewal options. The future minimum rental payments required under the operating leases at June 30, 2001, were as follows:

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2001

Year ending June 30,		
	2002	\$ 15,631
	2003	15,631
	2004	15,631
	2005	16,346
	2006	9,263
	Thereafter	<u>73,139</u>
Total minimum payments required		<u>\$145,641</u>

Note 7 - 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 carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8 - Retirement Plan

Plan Description—The District contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. 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 System, 3300 North Central Avenue, PO Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rate. For the year ended June 30, 2001, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 2.66 percent (2.17 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2001, 2000, and 1999 were \$175,974, \$164,910, and \$207,042, respectively, which were equal to the required contributions for the year.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2001

Note 9 - Implementation of GASB Statement No. 35

Beginning with fiscal year 2002, the District will prepare its external financial reports following the requirements of GASB Statement No. 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities. Implementing this standard will significantly change the accounting principles and reporting format used by the District in future financial reports.

Supplementary Information

Navajo County Community College District
(Northland Pioneer College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
Passed through the Governor's Office of School to Work Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	A9-0023-006	\$ 164,533
Passed through the White Mountain Apache Tribe Workforce Investment Act	17.255	B51605008155	<u>41,598</u>
Total U.S. Department of Labor			<u>206,131</u>
U.S. Small Business Administration			
Passed through the Maricopa County Community College District Small Business Development Center	59.037	0-7620-0003-08 7620-00-76200-4130	<u>71,694</u>
Total U.S. Small Business Administration			<u>71,694</u>
U.S. Department of Education			
Direct Grants			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		53,057
Federal Work-Study Program	84.033		125,758
Federal Pell Grant Program	84.063		<u>1,473,445</u>
Total Student Financial Assistance Cluster			<u>1,652,260</u>
Passed through the Arizona State Board of Directors for Community Colleges Vocational Education—Basic Grants to States	84.048	30106, 30006	209,473
Passed through the Arizona Commission for Postsecondary Education			
Higher Education-Institutional Aid	84.031	P031A000160	161,353
Leveraging Educational Assistance Partnership	84.069	200PE175	44,651
Fund for the Improvement of Postsecondary Education	84.116	P116D990484	155,564
Passed through the Arizona Department of Education			
Adult Education—State Grant Program	84.002	01FAEABE-170595-01A	93,970
Tech-Prep Education	84.243	01-FVEDTP-170595-03A, 00-FVEDTP-070595-03A	23,961
Passed through the University of Arizona Fund for the Improvement of Postsecondary Education	84.116	V399268	<u>4,943</u>
Total U.S. Department of Education			<u>2,346,175</u>
Total Expenditures of Federal Awards			<u>\$2,624,000</u>

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, 2001

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 in 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 2001 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2001.



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of 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 Navajo County Community College District as of and for the year ended June 30, 2001, and have issued our report thereon dated February 28, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-01 through 01-06.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 01-01 and 01-03 to be material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, 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

February 28, 2003



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements
Applicable to 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 the compliance of Navajo County Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. 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 on the District's compliance with those requirements.

In our opinion, Navajo County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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.

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

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, 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

February 28, 2003

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2001

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

	Yes	No
Material weaknesses identified in internal control over financial reporting?	<u> x </u>	<u> </u>
Reportable conditions identified not considered to be material weaknesses?	<u> x </u>	<u> </u>
Noncompliance material to the financial statements noted?	<u> </u>	<u> x </u>

Federal Awards

Material weakness identified in internal control over major programs?	<u> </u>	<u> x </u>
Reportable condition identified not considered to be a material weakness?	<u> </u>	<u> x </u> (None reported)

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u> </u>	<u> x </u>
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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

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	<u> x </u>	<u> </u>
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Other Matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u> </u>	<u> x </u>
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Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2001

Financial Statement Findings

01-01

The District did not properly account for property, buildings, and equipment

Property, buildings, and equipment (plant assets) constitute a significant portion of the District's total assets. Maintaining adequate accounting records is essential to safeguard those assets against theft and misuse; to provide documentation for insurance purposes; to effectively plan future acquisitions, replacements, and maintenance; and to properly report them in the financial statements. To accomplish those objectives, the District should maintain a complete, accurate, and properly supported listing of plant assets.

Although audit adjustments were made to the financial statements for significant property, buildings, and equipment acquisitions and disposals during the fiscal year, District plant assets records were inaccurate and incomplete as evidenced by the following:

- The District had not taken a physical inventory of plant assets in the last 8 years and did not update its plant assets listing and account balances for current year acquisitions and disposals. Consequently, the District did not have current and accurate plant assets records as of June 30, 2001.
- The District did not prepare additions and deletions listings for items acquired or disposed of during the fiscal year. In addition, the District did not prepare a reconciliation of current year capital expenditures to capital acquisitions. Further, the District did not prepare a subsidiary ledger or schedule of construction in progress to accumulate the costs associated with each project. Consequently, changes in the District's plant assets balances from the prior year were not adequately supported.

To help ensure the integrity and accuracy of the District's plant asset records and to help safeguard the District's plant assets, the District's policies and procedures should include the following:

- Conduct a complete physical inventory of plant assets at least every 3 years, and investigate and resolve any discrepancies between the physical inventory, plant assets listing, and account balances.
- Prepare and maintain a current plant assets listing that includes the acquisition method, funding source, purchase price, acquisition date, location, serial number, and purchase document number for all capitalized land, buildings, improvements, and machinery and equipment, including related costs.
- Update the plant assets listing for all capital acquisitions and donations by fiscal year-end and prepare a separate additions listing.
- Delete all disposed, stolen, and lost assets from the plant assets listing by fiscal year-end and prepare a separate deletions listing.
- Reconcile capital expenditures to capital acquisitions at least annually.
- Prepare and maintain a schedule of construction projects in progress that accumulates the costs associated with each project.

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2001

01-02

The District lacked adequate controls over its bookstore operations

The District did not have adequate policies and procedures in place for its bookstore operations to ensure that bookstore materials and supplies were adequately safeguarded, cash receipts were properly accounted for, inventory was accurately counted and valued, and incompatible employee duties were segregated. Specifically, we noted the following control deficiencies that could make the bookstore's assets susceptible to potential abuse and theft and could cause inventory to be misstated at year-end:

- The bookstore manager was responsible for ordering, receiving, issuing, and storing bookstore inventory. This employee also received and deposited cash collected from the Keams Canyon Center and maintained the bookstore's accounting records.
- The District did not provide written instructions for the year-end physical inventory.
- The year-end inventory listing was lost, and as a result, the year-end inventory balance was not supported.

No one person should be responsible for handling assets and also maintaining the accounting records for those assets. The District should take immediate action to separate cash-handling, recordkeeping, and inventory ordering and receiving functions among employees.

To help ensure that inventory quantities are accurate and the inventory is properly valued, the District should issue written detailed instructions for year-end physical inventory and take greater care to ensure that the inventory listings are maintained to support the recorded balance.

Further, the District should document these policies and procedures and provide detailed descriptions of employees' responsibilities and duties. Written policies and procedures provide the basic framework for establishing employee accountability. They also serve as a reference tool for employees seeking guidance on the proper handling of complex or infrequent transactions and situations, thereby reducing the risk of errors and irregularities.

01-03

The District controller performed incompatible cash-related duties

The District controller transferred cash between accounts and funds, reconciled bank accounts, prepared journal entries, and maintained accounting records. Allowing one person to perform these incompatible duties creates the potential for cash to be lost or stolen without being detected by other employees in the normal course of performing their duties.

The District should separate cash-handling and recordkeeping functions among employees. If the District controller must perform all these duties, an administrator should review and approve the monthly bank reconciliations and journal entries.

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2001

01-04

The District's information system lacked adequate information technology controls

The District did not establish the necessary information technology controls to secure its information system from unauthorized access to hardware or software and provide for adequate recovery in the event of a disaster or systems failure. We noted several control deficiencies that could make the District's information system and data vulnerable to unauthorized changes or loss in case of disaster. Specifically, the District Information Technology group:

Access and physical security controls

- Did not separate operations and programming duties (two programmers had access to all information system resources).
- Lacked written procedures for the physical security of computer equipment and for computer-related emergencies.

Backup and recovery controls

- Did not complete its disaster recovery plan for processing critical jobs in the event of a major hardware or software failure or applicable forms to be used in case of a disaster.
- Stored the backup tapes openly on a shelf with only smoke detectors as a safeguard.

As a result of these deficiencies, employees could initiate inappropriate transactions or make system changes without detection. In addition, if a major hardware or software failure occurred, the District might be unable to recapture financial transactions already processed or process any additional financial transactions until the failure was corrected.

Protecting information system resources and processing information on secure systems with provisions for optimum recovery from potential threats are essential to effective District management. Therefore, the District should prepare, implement, and maintain written procedures that, at a minimum, address the control deficiencies noted above.

01-05

The District's bank accounts were not reconciled timely nor were reconciling items supported

Timely bank reconciliations are necessary to ensure that cash is adequately safeguarded and accurately reported. We noted the following deficiencies in the District's bank reconciliations:

- Several bank accounts were not reconciled until several months after the bank statement dates.

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2001

- The General and Payroll accounts were not completely and accurately reconciled as of the fiscal year-end. Further, reconciling items listed on the year-end reconciliations were not always supported by the accounting records or other documentation.

To properly account for and safeguard cash, the District should ensure that complete and accurate reconciliations are performed for all bank accounts on a monthly basis. Further, all reconciling items should be adequately supported.

01-06

**The District's did not reconcile expenditures
between the payroll system and general ledger**

Payroll expenditures comprise a significant portion of the District's total expenditures. The District's payroll expenditures recorded in the general ledger should be supported by the amounts recorded in the District's payroll system. However, the District did not reconcile the payroll registers from the District's payroll system to the general ledger. At June 30, 2001, there was a difference of approximately \$380,000 between the two systems.

To ensure payroll expenditures are properly recorded, the District should reconcile the payroll registers to the general ledger for each pay period, and investigate and resolve any discrepancies.



Northland Pioneer College

7 May 2003

Mr. Dennis L. Mattheisen
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Mr. Mattheisen,

The following is Northland Pioneer College's response to the audit findings and related recommendations as described in the management letter for the year ended June 30, 2001.

1. ***The District did not properly account for property, buildings and equipment.*** A complete physical inventory of plant assets has been accomplished since the period reviewed in this audit. Plant asset listings have been updated and we are in process of reconciling these entries to the general ledger. We are scheduled to complete a reconciliation of the physical inventory, plant assets listing, and account balances by June 30, 2003. Procedures have been implemented requiring a separate additions and deletions listing to be completed annually along with a schedule of construction in progress and a complete reconciliation for all components of the plant assets record.

2. ***The District lacked adequate controls over its bookstore operations.*** We agree that no one individual should be responsible for handling assets and also maintaining the accounting records for these assets. In order to ensure adequate separation of duties, we have incorporated the following procedures:
 - All cash collections will be forwarded to the business office for deposit if a local banking relationship has not been established. No cash will be forwarded to the district bookstore.
 - The District purchasing department, not the District bookstore, is responsible for receiving bookstore assets.
 - Detailed written instructions for the completion of the annual year-end physical inventory will be provided to each bookstore location.
 - Inventory listings are to be maintained and reconciled. Backup copies of all inventory listings are to be kept in two separate physical locations.
 - A bookstore procedure manual is to be distributed to all bookstore locations and will be reviewed by all employees performing bookstore duties.

3. ***The District controller performed incompatible cash-related duties.*** Several mitigating controls are in place to ensure that the combining of cash-handling and record keeping functions does not create a potential loss to the District.
 - Bank transfers require the participation of two individuals.
 - The business office manager reviews all journal entries prepared by the controller.
 - An administrator reviews all monthly bank reconciliations prepared by the controller.
 - A check log is maintained and reviewed independently of the controller.

4. ***The District's information system lacked adequate information technology controls.*** Procedures in the areas of physical security controls, program change controls, database controls and backup/recovery controls have been implemented. A procedure manual that includes each of the following controls is being updated and will be maintained.
 - Administrative review controls to address the inability to completely separate operations and programming duties.
 - Physical security of computer equipment, including computer-related emergencies.
 - Disaster recovery plan for processing critical jobs, including a mirrored database in a separate physical location and an HDR (High Availability Data Replication) system.
 - The use of a fire-safe cabinet for backup tapes.
 - Database logging, database audit functions and software revision control.

5. ***The District's bank accounts were not reconciled timely nor were reconciling items supported.*** Due to a change in the controller position, including a lengthy period of vacancy, critical procedures were not accomplished on a timely basis. Additionally, some support documentation was not able to be located. All bank accounts are now being reconciled timely and with complete documentation.

6. ***The District did not reconcile expenditures between the payroll system and the general ledger.*** Due to a change in the controller position, including a lengthy period of vacancy, critical procedures were not accomplished on a timely basis. Procedures have been implemented to reconcile the payroll registers to the general ledger for each payroll.

Thank you for the professional activities of your audit staff and their assistance in identifying areas of concern along with the recommendations for improvement. We appreciate your continuing involvement in this important function. Please contact me if you have any questions.

Sincerely,

V. Blaine Hatch
Vice President for Administrative Services