



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

**Navajo County
Community College
District**

(Northland Pioneer College)

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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Navajo County Community College District
(Northland Pioneer College)
Single Audit Reporting Package
Year Ended June 30, 2004

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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 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, 2004, 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 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, for the year ended June 30, 2004, which requires reporting as a component unit those organizations that raise and hold economic resources for the direct benefit of the District or its constituents.

The Management's Discussion and Analysis on pages i through viii is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2006, 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

August 4, 2006



Northland Pioneer College

Management's Discussion and Analysis

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, 2004. 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 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 a 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, 2004. 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, represents institutional equity or ownership in the total assets of the District. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects the results of operations and other changes for the year ended June 30, 2004. 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, 2004. 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 the 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 improves lives by creating access to quality learning and cultural opportunities through four campuses and six education centers. Major funding sources supporting all functions include property taxes, state appropriations, government grants and contracts, and tuition and fees.

Navajo County Community College District
P.O. Box 610
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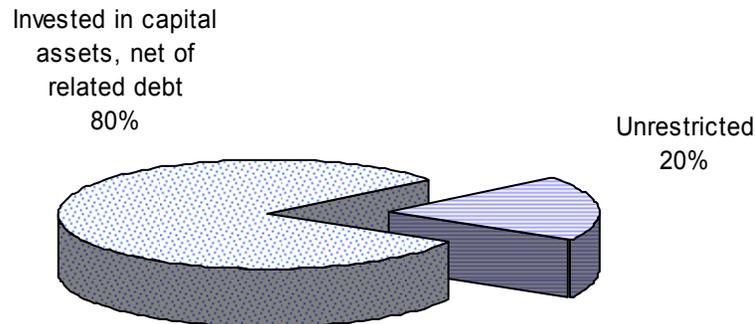
The District exercises primary and secondary property tax levy authority for generation of funds used for operating, capital equipment, and debt retirement purposes. The District's overall financial position improved in fiscal year 2004. The assets of the District exceeded its liabilities at the close of the fiscal year by \$28,662,312. Included in this amount is \$5,629,258, which may be used to meet the District's ongoing mission of providing learning opportunities throughout northeastern Arizona.

The condensed financial information below highlights the main categories of the *Statement of Net Assets*. Current assets are resources available to meet the operating needs of the District. 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 have been restricted by external parties for specific programs or purposes. The remaining net assets are unrestricted but are dedicated to the primary mission of the District. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Condensed Financial Information

Condensed Statement of Net Assets			
	<u>2004</u>	<u>2003</u>	% Change
Assets:			
Current assets	\$ 6,912,135	\$ 8,359,704	-17%
Noncurrent assets, other than capital assets	101,400	127,997	-21%
Capital assets, net	<u>31,925,776</u>	<u>31,125,780</u>	3%
Total assets	<u><u>\$38,939,311</u></u>	<u><u>\$39,613,481</u></u>	-2%
Liabilities:			
Long-term liabilities	9,166,728	\$10,231,669	-10%
Other liabilities	<u>1,110,271</u>	<u>1,890,701</u>	-41%
Total liabilities	<u><u>\$10,276,999</u></u>	<u><u>\$12,122,370</u></u>	-15%
Net Assets:			
Invested in capital assets, net of related debt	\$ 23,020,640	\$ 21,170,780	9%
Restricted net assets	12,414	249,034	-95%
Unrestricted net assets	<u>5,629,258</u>	<u>6,071,297</u>	-7%
Total net assets	<u><u>\$28,662,312</u></u>	<u><u>\$27,491,111</u></u>	4%

Net Assets by Category



The decrease in current assets was a result of new construction by the District. The recording of construction in progress activity also increased net capital assets and the amount invested in capital assets, net of related debt. Total net assets increased by \$1,171,201 over the previous fiscal year due primarily to new construction. The decrease in noncurrent assets, other than capital assets, was due to a reduction in property taxes receivable. The decrease in other liabilities was primarily attributable to a reduction in accounts payable, along with decreases in accrued payroll. There are no restrictions, commitments, or other limitations that affect the availability of current resources.

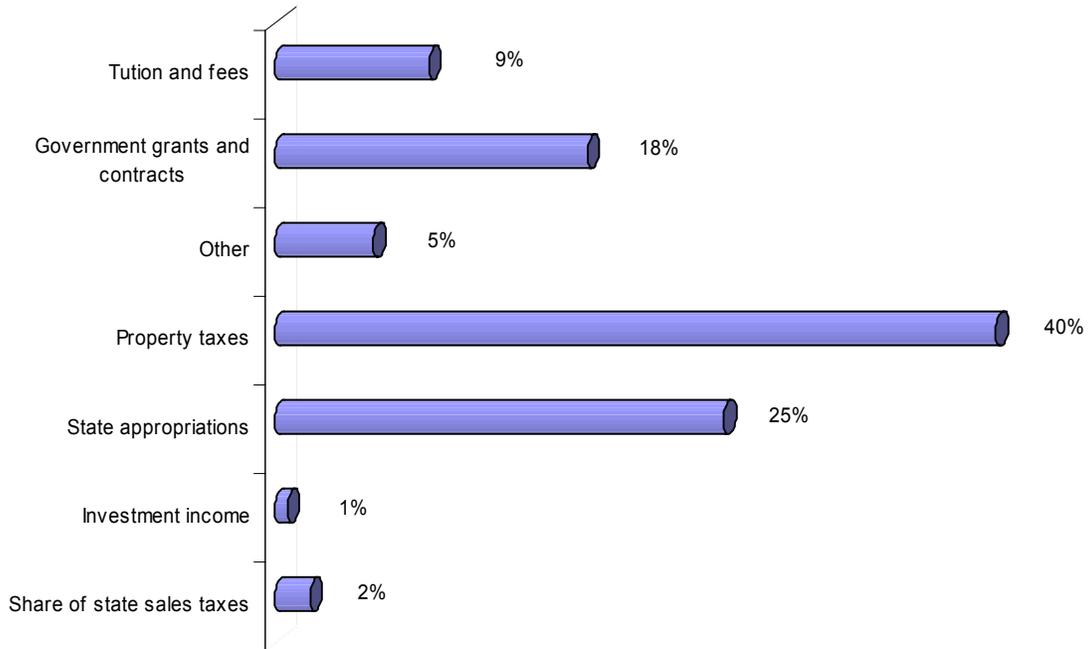
The condensed financial information on the next page highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Assets*. Generally, revenues generated by the District for instruction and public service are considered operating revenues. Other revenues not generated from operations, such as state appropriations and property taxes, 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 two largest revenue sources, property taxes and state appropriations, are considered nonoperating revenues. Please refer to the Summary of Significant Accounting Policies (Note 1), 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

	<u>2004</u>	<u>2003</u>	% Change
Revenues:			
Operating			
Tuition and fees (net of allowances)	\$ 1,929,858	\$ 1,807,443	7%
Government grants and contracts	3,934,020	4,244,707	-7%
Other	1,236,176	1,125,043	10%
Nonoperating			
Property taxes	9,078,374	8,335,387	9%
State appropriations	5,651,600	5,500,100	3%
Share of state sales taxes	443,242	1,413,078	-69%
Investment income	151,656	17,326	775%
Gain on disposal of capital assets	1,425	-	100%
Total revenues	<u>22,426,351</u>	<u>22,443,084</u>	<-1%
Expenses:			
Operating	21,182,887	19,705,726	7%
Nonoperating	<u>538,763</u>	<u>601,508</u>	-10%
Total expenses	<u>21,721,650</u>	<u>20,307,234</u>	7%
Income before other revenues	704,701	2,135,850	-67%
Capital appropriations	<u>466,500</u>	<u>466,500</u>	0%
Increase in net assets	1,171,201	2,602,350	-55%
Total net assets, July 1	<u>27,491,111</u>	<u>24,888,761</u>	10%
Total net assets, June 30	<u>\$28,662,312</u>	<u>\$27,491,111</u>	4%

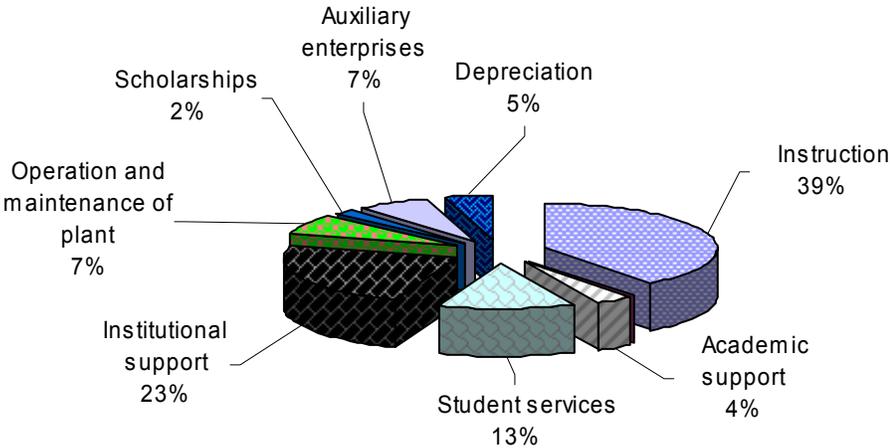
Revenues by Source



The increase in tuition and fees was attributable to increased enrollment along with an increase in the amount charged to students. Property tax increases were credited to the continued growth in assessed valuation combined with an increase in the property tax rate. Investment income increased due to the recognition in the prior year of a loss in the State of Arizona Local Government Investment Pool. The decrease in the share of state sales taxes is attributable to the prior year allocation of \$1,000,000 for campus matching funds, which was a non-recurring event.

	<u>2004</u>	<u>2003</u>	% Change
Operating Expenses			
Educational and general:			
Instruction	\$ 8,347,557	\$ 7,669,348	9%
Public service	13,180	9,222	43%
Academic support	765,368	770,450	-1%
Student services	2,716,676	2,788,184	-3%
Institutional support	4,926,053	4,638,889	6%
Operation & maintenance of plant	1,568,310	1,278,507	23%
Scholarships	430,382	469,945	-8%
Auxiliary enterprises	1,478,268	1,230,360	20%
Depreciation	937,093	850,821	10%
Total operating expenses	<u>21,182,887</u>	<u>19,705,726</u>	7%
Nonoperating Expenses			
Other	274,999	-	100%
Interest expense on debt	263,764	601,508	-56%
Total nonoperating expenses	<u>538,763</u>	<u>601,508</u>	-10%
Total Expenses	<u>\$21,721,650</u>	<u>\$20,307,234</u>	7%

Operating Expenses by Category



Operating expenses in 2004 for instruction, institutional support and operation and maintenance of plant increased due to salary increases of 3.5% for all employees. In addition, several instructional programs expanded. Operating expenses were also affected by a significant increase in required contributions to the Arizona State Retirement System. On January 1, 2003, the District joined the Navajo County Schools Employee Benefit Trust for the provision of employee health insurance, which is expected to continue to reduce the cost of health insurance in the future. Nonoperating expenses decreased a total of \$62,745. This was comprised of a decrease in interest on debt of \$337,744 due to the refunding of bonds and the refunding bond issuance cost of \$274,999, which is in the Other category.

Capital Assets and Debt Administration

The District regularly updates its Capital Project Development Plan. The plan describes new construction and renovation projects. During the fiscal year construction was completed on a new learning center located on the Painted Desert Campus. This facility replaced a failed building and funding for this project was derived primarily from settlement agreements. Additional smaller projects were completed on the White Mountain Campus, the Silvercreek Campus, the Whiteriver Center and the District Office. Funding for these projects was derived from property taxes and capital state aid.

Moveable capital assets (equipment) and all other capital assets, except land and construction in progress, are reported net of accumulated depreciation in accordance with reporting standards issued by GASB. This has the effect of reducing total capital assets in the financial statements. Depreciation expense totaled \$937,093 for the year, and is shown as an operating expense on the *Statement of Revenues, Expenses, and Changes in Net Assets*.

In September 2003, the District issued \$9,015,000 of general obligation refunding bonds with an average interest rate of 2.79 percent. The refunding bonds replaced the Series 1995 General Obligation bonds, which had an average interest rate of 5.36 percent. The District's debt service was reduced by \$770,561. At June 30, 2004, the District had two debt issues outstanding, one general obligation refunding bond issue with outstanding principal of \$7,600,000 funded from secondary property taxes, and one certificate of participation originally issued for \$2,410,000 with \$1,040,000 outstanding that is funded primarily from tuition and fees. Additional information on the District's long-term debt can be found in Note 4 to the basic financial statements.

Current Factors Having Probable Future Financial Significance

It is anticipated that state appropriations will continue to decline as a percentage of total revenue. The District will continue to pursue program funding from external sources such as federal and local grants and contracts, along with community and business partnerships. It will continue to be necessary to shift additional financial responsibility for education to students in the form of tuition and fees and to local communities in the form of property taxes.

The District qualified for equalization aid totaling \$1,441,300 for the fiscal year, with that amount being included in the state appropriations total. Equalization aid is becoming a more important revenue source for the District.

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.

Navajo County Community College District
(Northland Pioneer College)
Statement of Net Assets—Primary Government
June 30, 2004

	<u>Business-Type Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 170,071
Investments	4,220,317
Receivables (net of allowances for uncollectibles):	
Accounts	109,002
Property taxes	339,666
Government grants and contracts	4,521
Student	1,088,434
Inventories	<u>980,124</u>
Total current assets	<u>6,912,135</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	12,414
Property taxes receivable	88,986
Capital assets, not being depreciated	4,557,886
Capital assets, being depreciated, net	<u>27,367,890</u>
Total noncurrent assets	<u>32,027,176</u>
Total assets	<u>38,939,311</u>
Liabilities	
Current liabilities:	
Accounts payable	824,568
Accrued payroll and employee benefits	264,603
Deposits held in custody for others	21,100
Current portion of compensated absences payable	194,571
Current portion of long-term debt	<u>1,698,185</u>
Total current liabilities	<u>3,003,027</u>
Noncurrent liabilities:	
Compensated absences payable	67,021
Long-term debt	<u>7,206,951</u>
Total noncurrent liabilities	<u>7,273,972</u>
Total liabilities	<u>10,276,999</u>
Net Assets	
Invested in capital assets, net of related debt	23,020,640
Restricted:	
Nonexpendable—endowments	12,414
Unrestricted	<u>5,629,258</u>
Total net assets	<u>\$28,662,312</u>

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Financial Position—Component Unit
June 30, 2004

	<u>Northland Pioneer College Foundation</u>
Assets	
Cash	\$ 25,998
Interest receivable	155
Investments	
Certificates of deposit	135,251
Restricted cash	35,676
Real estate	18,000
Land and building, net of accumulated depreciation	<u>43,750</u>
Total assets	<u>258,830</u>
Liabilities	
Accounts payable	563
Deferred revenue	<u>4,575</u>
Total liabilities	<u>5,138</u>
Net Assets	
Unrestricted	218,016
Temporarily restricted	<u>35,676</u>
Total net assets	<u>\$253,692</u>

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, 2004

	<u>Business-Type Activities</u>
Operating revenues:	
Tuition and fees, net of scholarship allowances of \$563,033	\$ 1,929,858
Government grants and contracts	3,934,020
Private grants and contracts	209,379
Bookstore income, net of scholarship allowances of \$273,415	662,811
Dormitory rentals and fees, net of scholarship allowances of \$12,243	5,418
Other sales and services	84,185
Other	<u>274,383</u>
Total operating revenues	<u>7,100,054</u>
Operating expenses:	
Educational and general:	
Instruction	8,347,557
Public service	13,180
Academic support	765,368
Student services	2,716,676
Institutional support	4,926,053
Operation and maintenance of plant	1,568,310
Scholarships	430,382
Auxiliary enterprises	1,478,268
Depreciation	<u>937,093</u>
Total operating expenses	<u>21,182,887</u>
Operating loss	<u>(14,082,833)</u>
Nonoperating revenues (expenses):	
Property taxes	9,078,374
State appropriations	5,651,600
Share of state sales taxes	443,242
Investment income	151,656
Other nonoperating expenses	(274,999)
Interest expense on debt	(263,764)
Gain on disposal of capital assets	<u>1,425</u>
Total nonoperating revenues	<u>14,787,534</u>
Income before other revenues, expenses, gains, or losses	<u>704,701</u>
Capital appropriations	466,500
Increase in net assets	<u>1,171,201</u>
Total net assets, July 1, 2003	<u>27,491,111</u>
Total net assets, June 30, 2004	<u>\$28,662,312</u>

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Activities—Component Unit
Year Ended June 30, 2004

	Northland Pioneer College Foundation		
	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Membership dues	\$ 1,372		\$ 1,372
Special events revenue, net	21,624		21,624
Contributions	2,015	\$ 2,642	4,657
Donations in-kind	1,750		1,750
Interest income	<u>2,403</u>		<u>2,403</u>
Total support and revenue	<u>29,164</u>	<u>2,642</u>	<u>31,806</u>
Expenses			
Program services	12,895		12,895
Support services	<u>2,498</u>		<u>2,498</u>
Total expenses	<u>15,393</u>		<u>15,393</u>
Increase in net assets	13,771	2,642	16,413
Net assets, beginning of year	<u>204,245</u>	<u>33,034</u>	<u>237,279</u>
Net assets, end of year	<u><u>\$218,016</u></u>	<u><u>\$35,676</u></u>	<u><u>\$253,692</u></u>

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2004

	<u>Business-Type Activities</u>
Cash flows from operating activities:	
Tuition and fees	\$ 1,892,713
Grants and contracts	4,475,930
Bookstore receipts	783,656
Dormitory rentals and fees	5,418
Other receipts	313,796
Payments to suppliers and providers of goods and services	(6,744,080)
Payments to employees	(12,740,104)
Payments to students for scholarships	(1,549,982)
Net cash used for operating activities	<u>(13,562,653)</u>
 Cash flows from noncapital financing activities:	
Property taxes	7,626,261
State appropriations	5,651,600
Share of state sales taxes	443,242
Deposits held in custody for others received	6,513
Deposits held in custody for others disbursed	(8,027)
Net cash provided by noncapital financing activities	<u>13,719,589</u>
 Cash flows from capital and related financing activities:	
Property taxes	1,537,285
Capital appropriations	466,500
Principal paid on capital debt	(1,625,850)
Interest paid on capital debt	(263,764)
Proceeds from sale of capital assets	299,911
Purchases of capital assets	(1,734,588)
Net cash used for capital and related financing activities	<u>(1,320,506)</u>
 Cash flows from investing activities:	
Interest received on investments	<u>151,656</u>
Net cash provided by investing activities	<u>151,656</u>
 Net decrease in cash and cash equivalents	(1,011,914)
 Cash and cash equivalents, July 1, 2003	<u>5,414,716</u>
 Cash and cash equivalents, June 30, 2004	<u>\$ 4,402,802</u>

(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, 2004
(Continued)

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (14,082,833)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	937,093
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(44,772)
Inventories	(29,639)
Decrease in:	
Government grants and contracts receivable	332,531
Student receivables	118,466
Prepaid expenses	494
Accounts payable, excluding payables for capital assets	(703,228)
Accrued payroll and employee benefits	(40,922)
Deferred revenues	(34,766)
Compensated absences payable	<u>(15,077)</u>
Net cash used for operating activities	<u>\$ (13,562,653)</u>
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and cash equivalents	\$ 170,071
Investments	4,220,317
Restricted assets:	
Cash and cash equivalents	<u>12,414</u>
Total cash and cash equivalents, June 30, 2004	<u>\$ 4,402,802</u>

Noncash investing, capital, and noncapital financing activities:

In September 2003, the District issued \$9,015,000 of Series 2003 general obligation refunding bonds to advance-refund \$8,740,000 of Series 1995 general obligation bonds.

During the year, the District entered into a sales and installment purchase contract for \$300,986 for vehicles. The District received \$299,911 in cash for the sale and recognized a gain on disposal of capital assets of \$1,425.

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2004

Note 1 - Summary of Significant Accounting Policies

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

During the year ended June 30, 2004, the District implemented the provisions of the Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which requires reporting as a component unit those organizations that raise and hold economic resources for the direct benefit of the District.

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 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, only the Foundation's statements 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.

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board 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 respective counterpart financial statements of the District. The Foundation has a June 30 year end.

Complete financial statements for the Foundation can be obtained from the Northland Pioneer College Foundation, P.O. Box 610, Holbrook, Arizona 86025-0610.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2004

B. Basis of Presentation and Accounting

The 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 the District's obligations. Invested in capital assets, net of related debt represents the net value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include 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 providing instructional, public, and auxiliary services, which is consistent with the District's mission. Accordingly, revenues such as tuition, educational grants, and bookstore, food service, and dormitory charges are considered to be operating revenues. Other revenues, such as property taxes and state appropriations, are not generated from operations 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 either 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. Internal activity is eliminated.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2004

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

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, and investments in the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

D. Inventories

Inventories are stated at 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	25-40 years
Improvements other than buildings	5,000	straight-line	40 years
Equipment	5,000	straight-line	5-10 years
Library books	All	straight-line	10 years

F. Investment Income

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

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2004

G. Compensated Absences

Compensated absences consist 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 termination of 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 provided by the District and the amount that is paid by the student or third parties making payments on behalf of the student. 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 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. 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, 2004, the carrying amount of the District's deposits was \$160,095, and the bank balance was \$658,130. Of the bank balance, \$209,258 was covered by federal depository insurance; \$426,258 was covered by collateral held by the pledging financial institution's trust department or agent in the District's name; and \$22,614 was uninsured and uncollateralized.

Investments—At June 30, 2004, the District's investments consisted of the following:

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2004

	Fair Value
Cash and investments held by the County Treasurer	\$3,117,070
Investment in State Treasurer's investment pool	<u>1,103,247</u>
Total	<u>\$4,220,317</u>

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 Investment 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 provided for shares.

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

Cash and investments:		Statement of Net Assets:	
Cash on hand	\$ 22,390	Cash and cash equivalents	\$ 170,071
Carrying amount of deposits	160,095	Current investments	4,220,317
Reported amount of investments	<u>4,220,317</u>	Restricted assets:	
		Cash and cash equivalents	<u>12,414</u>
Total	<u>\$4,402,802</u>	Total	<u>\$4,402,802</u>

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 809,291			\$ 809,291
Construction in progress (estimated cost to complete \$2,503,540)	<u>7,494,978</u>	<u>\$1,369,604</u>	<u>\$5,115,987</u>	<u>3,748,595</u>
Total capital assets not being depreciated	<u>8,304,269</u>	<u>1,369,604</u>	<u>5,115,987</u>	<u>4,557,886</u>

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2004

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets being depreciated:				
Buildings	\$21,010,880	\$4,730,203	\$ 37,916	\$25,703,167
Equipment	2,325,179	351,000	185,150	2,491,029
Improvements other than buildings	4,979,602	385,784		5,365,386
Library books	<u>502,911</u>	<u>61,007</u>	<u>39,069</u>	<u>524,849</u>
Total capital assets being depreciated	<u>28,818,572</u>	<u>5,527,994</u>	<u>262,135</u>	<u>34,084,431</u>
Less accumulated depreciation for:				
Buildings	3,615,175	490,192	30,638	4,074,729
Equipment	1,181,667	278,689	147,906	1,312,450
Improvements other than buildings	966,747	124,490		1,091,237
Library books	<u>233,472</u>	<u>43,722</u>	<u>39,069</u>	<u>238,125</u>
Total accumulated depreciation	<u>5,997,061</u>	<u>937,093</u>	<u>217,613</u>	<u>6,716,541</u>
Total capital assets being depreciated, net	<u>22,821,511</u>	<u>4,590,901</u>	<u>44,522</u>	<u>27,367,890</u>
Capital assets, net	<u>\$31,125,780</u>	<u>\$5,960,505</u>	<u>\$5,160,509</u>	<u>\$31,925,776</u>

Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due within 1 year
Compensated absences payable	<u>\$ 276,669</u>	<u>\$ 257,629</u>	<u>\$ 272,706</u>	<u>\$ 261,592</u>	<u>\$ 194,571</u>
General obligation bonds	\$8,740,000		\$ 8,740,000		
General obligation refunding bonds		\$9,015,000	1,415,000	\$7,600,000	\$1,445,000
Certificates of participation payable	1,215,000		175,000	1,040,000	180,000
Installment purchase contracts payable		<u>300,986</u>	<u>35,850</u>	<u>265,136</u>	<u>73,185</u>
Total long-term debt	<u>\$9,955,000</u>	<u>\$9,315,986</u>	<u>\$10,365,850</u>	<u>\$8,905,136</u>	<u>\$1,698,185</u>

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2004

Bonds—The District’s bonded debt consists of general obligation bonds with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. Bonds have also been issued to advance-refund previously issued bonds. The District repays general obligation bonds from voter-approved property taxes. In September 2003, the District issued \$9,015,000 of general obligation refunding bonds, with an average interest rate of 2.79 percent, to advance-refund older, higher-rate issues, with an average interest rate of 5.36 percent. The District realized net proceeds of \$8,992,189, after payment of \$184,997 in underwriting fees, insurance, and other issuance costs, and the receipt of \$162,186 for premium and accrued interest. These proceeds were used to purchase securities that were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased and related liabilities are not included in the District’s financial statements. At June 30, 2004, \$7,680,000 of defeased bonds is outstanding. Details of the refunding transaction are as follows:

Amount of refunding bonds issued	\$9,015,000
Amount of bonds refunded	8,740,000
Reduction in debt service payments	770,561
Economic gain	628,238

Bonds outstanding at June 30, 2004, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
General obligation refunding bonds, Series 2003	\$9,015,000	7/1/04-09	2.0-3.5%	\$7,600,000

The following schedule details debt service requirements to maturity for the District’s bonds payable at June 30, 2004:

Year ending June 30	Principal	Interest
2005	\$1,445,000	\$199,138
2006	1,475,000	170,238
2007	1,515,000	140,737
2008	1,560,000	99,075
2009	<u>1,605,000</u>	<u>56,175</u>
Total	<u>\$7,600,000</u>	<u>\$665,363</u>

Certificates of participation—In April 1994, the District issued certificates of participation that are generally callable with interest payable semiannually. 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, 2004, \$645,000 of defeased bonds is outstanding.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2004

Certificates outstanding at June 30, 2004, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Certificates of participation, Series 1994	\$2,410,000	7/1/04-09	6.00-6.55%	\$1,040,000

The following schedule details debt service requirements to maturity for the District's certificates of participation payable at June 30, 2004:

Year ending June 30,	Principal	Interest
2005	\$ 180,000	\$ 66,468
2006	195,000	55,308
2007	210,000	43,022
2008	220,000	29,583
2009	<u>235,000</u>	<u>7,696</u>
Total	<u>\$1,040,000</u>	<u>\$202,077</u>

Installment purchase contracts—The District has acquired vehicles under contract agreements at a total purchase price of \$300,986. The following schedule details debt service requirements to maturity for the District's installment purchase contracts payable at June 30, 2004:

Year ending June 30,	Principal	Interest
2005	\$ 73,185	\$ 6,791
2006	75,211	4,765
2007	77,294	2,683
2008	<u>39,446</u>	<u>542</u>
Total	<u>\$265,136</u>	<u>\$14,781</u>

Note 5 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; natural disasters; errors and omissions; and injuries to employees. The District participates with seven other Arizona community college districts and more than 200 Arizona school districts in the Arizona School Risk Retention Trust, Inc., 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 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 1 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,

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2004

accidental death and dismemberment for students and employees, employee travel, and extended reporting for errors and omissions. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

The District was unable to obtain health coverage at a cost it considers to be economically justifiable; therefore, the District joined the Navajo County Schools Employee Benefit Trust (Trust), together with other school districts in the state for 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 ten 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 would 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.

Note 6 - 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 Arizona State Retirement System, 3300 North Central Avenue, P.O. 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 rates. For the year ended June 30, 2004, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2004, 2003, and 2002, were \$498,075, \$200,772, and \$172,244, 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, 2004

Note 7 - 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	\$12,547,289
Contract services	2,911,733
Supplies and other services	2,602,413
Communications and utilities	1,129,368
Depreciation	937,093
Scholarships	430,382
Other	<u>624,609</u>
Total	<u>\$21,182,887</u>

Note 8 - Discretely Presented Component Unit Disclosures

A. Summary of Significant Accounting Policies

The financial statements of the Foundation have been prepared on the accrual basis. The significant accounting policies followed 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 (NPC). The Foundation receives cash contributions, gifts, and membership dues; administers and invests securities and property; conducts special event fundraisers; and disburses payments to the District for educational purposes.

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.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2004

Revenue Recognition

Membership dues and other revenues received for support of current operations are recorded as revenues. Membership dues and other revenues received for support of future operations are deferred and recognized over the periods to which the dues and revenues relate.

Financial Statement Presentation

The Foundation has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, 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.

Contributions

The Foundation has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Investments

The Foundation has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, 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.

B. Cash

The total cash held by the Foundation at June 30, 2004 is as follows:

Petty cash	\$ 58
Checking	23,103
Money market	<u>2,837</u>
Total	<u>\$25,998</u>

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2004

C. Investments

Investments consist of certificates of deposit held in financial institutions by the Foundation and real estate comprising several lots of land. As of June 30, 2004, the certificate of deposits totaled \$170,927, of which \$35,676 was restricted, and the real estate totaled \$18,000. These investments are stated at market value and adjustments have been made to accrue earned interest income on the certificates of deposit in accordance with accounting principles generally accepted in the United States of America. The certificates of deposit earn interest at rates varying from 1.242 percent to 2.38 percent.

Supplementary Information

Navajo County Community College District
(Northland Pioneer College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
WIA Adult Program, passed through the White Mountain Apache Tribe	17.258	B51605008155	\$ <u>52,851</u>
U.S. Small Business Administration			
Small Business Development Center, passed through Maricopa County Community College District	59.037	4-603001-Z-0003-12	<u>79,984</u>
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		46,800
Federal Work-Study Program	84.033		91,462
Federal Pell Grant Program	84.063		<u>1,943,841</u>
Total Student Financial Assistance Cluster			<u>2,082,103</u>
Adult Education—State Grant Program, passed through the Arizona Department of Education	84.002	04FAEABE-470595-01A	234,018
Higher Education—Institutional Aid	84.031		203,182
Vocational Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	04FCTDBG-470595-04A	262,145
Tech-Prep Education, passed through the Arizona Department of Education	84.243	04-FCTDTP-470595-02A, 04FCTDTP-470595-05A	116,014
Leveraging Educational Assistance Partnership, passed through Arizona Commission for Postsecondary Education	84.069	204PE194	<u>68,514</u>
Total U.S Department of Education			<u>2,965,976</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,098,811</u></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, 2004

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 2004 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2004.



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
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, 2004, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 4, 2006. Our report was modified as to consistency because of the implementation of Government Accounting Standards Board Statement No. 39 and was modified due to our reliance 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. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *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 opinions on the basic financial statements and not to provide an opinion 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 basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-01, 04-02, and 04-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic 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 matters in internal control 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 04-01, 04-02, and 04-03 to be material weaknesses. We also noted other matters involving internal control over financial reporting that we will report to the District's management in a separate letter at a future date.

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*. However, we also noted certain immaterial instances of noncompliance or other matters that we will report to the District's management in a separate letter at a future date.

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

August 4, 2006



**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, 2004. 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.

As described in item 04-101 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding the single audit report submission requirements that are applicable to the student financial assistance cluster. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2004.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal controls 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 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.

We noted certain matters involving internal control over compliance 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 compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 04-101.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weakness.

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

August 4, 2006

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

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>	___	
Reportable condition identified not considered to be a material weakness?	___	<u>X</u>	(None reported)
Noncompliance material to the financial statements noted?	___	<u>X</u>	

Federal Awards

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

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___	
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	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	
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Auditee qualified as low-risk auditee?	___	<u>X</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>X</u>	
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Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Financial Statement Findings

04-01

The district controller had incompatible cash-related responsibilities

The district controller transferred cash between accounts and funds, reconciled bank accounts, was an authorized check signer, prepared journal entries, and maintained accounting records. Allowing one person to have these incompatible responsibilities creates the potential for cash to be lost or stolen without being detected by other employees in the normal course of performing their jobs.

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

04-02

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 a disaster or systems failure. Specifically, the District Information Technology group:

Access and physical security

- Did not separate operations and programming responsibilities since two programmers had access to all information system resources.
- Did not limit access to payroll and personnel modules. As a result, employees in the payroll and personnel departments could add new employees, change pay rates, and process payroll. Furthermore, payroll checks were electronically signed in the payroll department and were received and distributed by payroll department employees.
- Lacked written procedures for the physical security of computer equipment and for computer-related emergencies.
- Did not require users to change their passwords on a periodic basis.

Backup and disaster recovery

- Did not complete its disaster recovery plan for processing critical jobs in the event of a major hardware or software failure or maintain the necessary forms to be used in case of a disaster.
- Did not store the backup tapes at an offsite facility. Additionally, the backup tapes were stored openly on a shelf with only smoke detectors as a safeguard.

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

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 policies and procedures that, at a minimum, address the following:

- Limitations on computer access or procedures for review if limitations to computer access is not feasible
- Procedures for the physical security of computer equipment and changing passwords
- Backup data and program files
- Each employee's duties and responsibilities
- Data recovery site location
- Recovery procedures for each critical system
- Provisions for regular system testing

04-03

The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. Additionally, the District must issue accurate and timely financial statements to ensure compliance with audit requirements imposed by federal and state laws and regulations, grant contracts, and long-term debt covenants. To achieve this objective, management should ensure that financial transactions are accurately recorded in its accounting records. However, the District did not fully accomplish this objective because the District did not adjust its accounting records to reflect year-end balances, did not record prior year audit adjustments in the accounting records, and did not always properly classify financial transactions in its accounting records. For example, capital assets, long-term debt, and the beginning balances of net assets were misstated by approximately \$5.8 million, \$1.3 million, and \$6 million, respectively. Further, auditors noted other unadjusted balances or misclassifications of cash, accounts receivable, government grants and contracts receivable, inventories, prepaid expenses, accounts payable, installment purchase contracts payable, deferred revenue, compensated absences, and payroll expense totaling \$1,249,375. As a result, these problems delayed the issuance of the District's financial statements for the year ended June 30, 2004, and required significant effort by auditors to assist the District in adjusting its financial statements.

To help ensure that the District accurately records and reports its financial activities, the District should adjust its accounting records to reflect year-end balances and record prior year audit adjustments prior to the preparation of its financial statements. In addition, the District should identify and classify financial transactions using the District's chart of accounts before they are posted to the accounting records. Finally, the District should research financial accounting and reporting requirements, and ensure financial transactions are properly recorded to comply with those requirements.

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Federal Award Findings and Questioned Costs

04-101

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants, #P007A030127

84.033 Federal Work-Study Program, #P033A030127

84.063 Federal Pell Grant Program, #'s P063P023482 and P063P033482

U.S. Department of Education

Award Period: July 1, 2003 through September 30, 2004

Questioned Cost: None

The Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320, requires that the single audit be completed and the single audit reporting package be submitted within 9 months after the end of the audit period, unless a longer period is agreed to by the oversight agency. The District obtained an extension from the U.S. Department of Education of June 30, 2006, for the submission of the single audit reporting package for the year ended June 30, 2004; however, the District did not meet the extended deadline. To help ensure compliance with the OMB Circular A-133, the District should prepare accurate and complete financial statements in a timely manner to facilitate the submission of the single audit reporting package by the required deadline. This finding is a material internal control weakness and material noncompliance with OMB Circular A-133 report submission requirements and impacts all federal programs administered by the District.



Northland Pioneer College

8 August 2006

Debbie Davenport
Auditor General
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport,

The Corrective Action Plan below has been prepared as required by the U.S. Management and Budget Circular A-133. Specifically, we are providing you with the name of the contact person, the corrective action planned, and the anticipated completion dates for the audit findings included in the current year's Schedule of Findings and Questioned Costs.

Financial Statement Findings

04-01

The District Controller performed incompatible duties
Contact Person: V. Blaine Hatch, Vice President for Administrative Services
Anticipated Completion Date: September 2006

The District anticipates placing several mitigating controls in place to ensure 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.
- A check log is maintained and reviewed independently of the controller.
- The business office manager reviews all journal entries prepared by the controller.
- An administrator reviews all monthly bank reconciliations prepared by the controller.

The District will continue to review its procedures related to the District controller performing cash-handling and recordkeeping functions.

04-02

The District's information system lacked adequate information technology controls

Contact Person: V. Blaine Hatch, Vice President for Administrative Services

Anticipated Completion Date: December 2006

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.

04-03

The District should ensure the accuracy of its accounting records

Contact Person: V. Blaine Hatch, Vice President for Administrative Services

Anticipated Completion Date: October 2006

The District concurs with the recommendation and has taken action to fully implement the outlined steps.

Federal Award Findings and Questioned Costs

04-101 - Reporting

CFDA No: 84.007 Federal Supplemental Educational Opportunity Grants

84.033 Federal Work-Study Program

84.063 Federal Pell Grant Program

Contact Person: V. Blaine Hatch, Vice President for Administrative Services

Anticipated Completion Date: January 2007

The District appreciates the efforts of the audit management and staff of Office of the Auditor General for providing guidance for the completion and reporting of the single audit package. The District also expresses appreciation to the U.S. Department of Education for allowing District staff to present a plan of action to remediate the late submission of the single audit reporting package for the year ended June 30, 2004. The District has taken action to ensure compliance with the OMB Circular A-133 for upcoming audit submissions by procuring accounting services from a private firm and by seeking additional qualified staff. The single audit reporting package for the year ended June 30, 2005 will be issued by

January 31, 2007. The single audit reporting package for the year ended June 30, 2006 will be issue by the established deadline, March 31, 2007.

We express appreciation to the Office of the Auditor General for the professional activities of your audit staff and their assistance in identifying areas of concern along with the recommendations for improvement. We appreciate the ongoing involvement of the Office of the Auditor General in this important function.

Sincerely,

V. Blaine Hatch
Vice President for Administrative Services