

**Navajo County
Community College District
(Northland Pioneer College)**

Single Audit Reporting Package

Year ended June 30, 2005

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HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

10120 N. Oracle Road
Tucson, Arizona 85704
(520) 742-2611
Fax (520) 742-2718

Gary Heinfeld, CPA, CGFM
Nancy A. Meech, CPA, CGFM
Jennifer L. Shields, CPA
Corey Arvizu, CPA

Scott W. Kies, CPA
Kimberly A. Robinson, CPA
Kera Badalamenti, CPA

www.heinfeldmeech.com

INDEPENDENT AUDITORS' REPORT

The Auditor General of the State of Arizona

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 (District), as of and for the year ended June 30, 2005, 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 the 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 provides 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, 2005, 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) No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principle.

The management's discussion and analysis on pages 3 through 8 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 State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information had 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 31, 2006, on our consideration of the Navajo County Community College 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

August 31, 2006

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2005**

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, 2005. 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 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, 2005. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represent institutional equity or ownership in the District's total assets.

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects the results of operations and other changes for the year ended June 30, 2005. 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, 2005. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the *Statement of Net Assets* described above. In addition, this statement reconciles cash flows from operating activities to operating loss on the *Statement of Revenues, Expenses, and Changes in Net Assets* described above.

Financial Highlights and Analysis

Consistent with its mission, the District provides comprehensive, accessible, excellent, affordable, and lifelong learning opportunities to enrich the quality of life for individuals and communities. Major funding sources supporting all functions include property taxes, state appropriations, government grants and contracts, and tuition and fees. The District exercises primary and secondary property tax levy authority for generation of funds used for operating, capital equipment, and debt retirement purposes.

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2005**

The condensed financial information below highlights the main categories of the *Statement of Net Assets*. Assets and liabilities are distinguished as either current or noncurrent. Current assets are resources available to meet the District's operating needs, including current liabilities. Current liabilities are obligations that are intended for liquidation or payment within the next fiscal year. Net assets are divided into three categories reflecting the broad characteristics of institutional equity in the assets of the District. In addition to the District's capital assets, the District holds resources that external parties have restricted for specific programs or purposes. The remaining net assets are unrestricted but are dedicated to the District's primary mission. Over time, increases or decreases in net assets may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

Condensed Financial Information

The following is a listing of condensed financial information for the District as of June 30, 2005 and 2004:

Condensed Statement of Net Assets – Primary Government			
	June 30, 2005	June 30, 2004	% Change
Assets:			
Current assets	\$ 8,602,688	\$ 6,912,135	24%
Noncurrent assets, other than capital assets	106,577	101,400	5%
Capital assets, net	31,476,417	31,925,776	-1%
Total assets	40,185,682	38,939,311	3%
Liabilities:			
Other liabilities	1,258,734	1,110,271	13%
Long-term liabilities	7,524,358	9,166,728	-18%
Total liabilities	8,783,092	10,276,999	-14%
Net Assets:			
Invested in capital assets, net of related debt	24,269,466	23,020,640	5%
Restricted net assets	131,260	12,414	957%
Unrestricted net assets	7,001,864	5,629,258	24%
Total net assets	\$ 31,402,590	\$ 28,662,312	10%

The increase in current assets was a result of an increase in investments with the State and County Treasurer. The decrease in long-term liabilities was primarily due to the retirement of \$1.4 million of general obligation bonds. The increase in other liabilities was due to an increase in accounts payable and compensated absences payable at year-end. There are no restrictions, commitments, or other limitations that affect the availability of current resources. The increase in unrestricted net assets was due to an increase in property taxes and state appropriations, which allowed tuition revenues to be set aside for future needs.

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2005**

The condensed financial information below 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.

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2005**

**Condensed Statement of Revenues, Expenses, and
Changes in Net Assets – Primary Government
Year ended June 30**

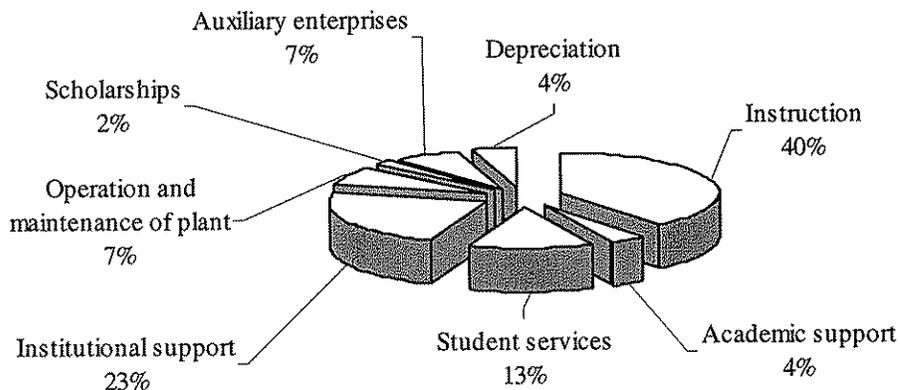
	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Revenues:			
<i>Operating</i>			
Tuition and fees	\$ 1,996,874	\$ 1,929,858	3%
Government grants and contracts	4,872,657	3,934,020	24%
Private grants and contracts	255,835	209,379	22%
Bookstore income	808,569	662,811	22%
Other	222,363	363,986	-39%
<i>Nonoperating</i>			
Property taxes	9,749,809	9,078,374	7%
State appropriations	6,547,100	5,651,600	16%
Share of state sales taxes	456,613	443,242	3%
Investment income	155,540	151,656	3%
Gain on disposal of capital assets		1,425	-100%
Total revenues	<u>25,065,360</u>	<u>22,426,351</u>	12%
Expenses:			
Operating	22,445,219	21,182,887	6%
Nonoperating	466,163	538,763	-13%
Total expenses	<u>22,911,382</u>	<u>21,721,650</u>	5%
Income before other revenues, expenses, gains, or losses	2,153,978	704,701	206%
Capital appropriations	<u>586,300</u>	<u>466,500</u>	26%
Increase in net assets	2,740,278	1,171,201	134%
Total net assets, July 1	<u>28,662,312</u>	<u>27,491,111</u>	4%
Total net assets, June 30	<u>\$ 31,402,590</u>	<u>\$ 28,662,312</u>	10%

The revenues increased in fiscal year 2004-05 by \$2.6 million, a 12 percent increase from the prior year. Government grants and contracts increased by \$987,637 (24 percent) primarily due to additional local contracting activity. State appropriations increased \$895,500 (16 percent) as a result of an increase in the amount of equalization aid.

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Operating Expenses			
Educational and general:			
Instruction	\$9,316,065	\$8,347,557	12%
Public service	15,388	13,180	17%
Academic support	815,634	765,368	7%
Student services	2,571,292	2,716,676	-5%
Institutional support	5,008,757	4,926,053	2%
Operation and maintenance of plant	1,673,191	1,568,310	7%
Scholarships	511,772	430,382	19%
Auxiliary enterprises	1,446,337	1,478,268	-2%
Depreciation	1,086,783	937,093	16%
Total operating expenses	<u>22,445,219</u>	<u>21,182,887</u>	6%
Nonoperating Expenses			
Other	191,774	274,999	-30%
Interest expense on debt	274,389	263,764	4%
Total nonoperating expenses	<u>466,163</u>	<u>538,763</u>	-13%
Total Expenses	<u>\$22,911,382</u>	<u>\$21,721,650</u>	5%

Operating Expenses by Category



Operating expenses in 2004-05 for instruction, institutional support and operation and maintenance of plant increased due to salary increases of 5 percent for all employees. Operating expenses were also affected by an increase in health insurance costs by 10 percent. Nonoperating costs decreased in 2004-05 by \$72,600, a 13 percent decrease. The decrease was primarily due to the refunding bond issuance costs from prior year, which were not incurred in 2004-05.

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2005**

Capital Assets and Debt Administration

The District regularly approves a Capital Project Development Plan. The plan describes new construction and renovation projects. A remodel and expansion of a facility at the Painted Desert Campus in Holbrook was started during this fiscal year.

At June 30, 2005, the District had two debt issues outstanding, one general obligation bond originally issued for \$9,015,000 with \$6,155,000 outstanding that is funded from secondary property taxes, and one issue of certificates of participation originally issued for \$2,410,000 with \$860,000 outstanding that is funded primarily from tuition and fees. No additional long-term debt was issued during the fiscal year. 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 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 \$2,134,800 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.

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

**Navajo County Community College District
(Northland Pioneer College)
Statement of Net Assets - Primary Government
June 30, 2005**

	<u>Business-Type Activities</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 284,439
Investments	5,514,630
Receivables (net of allowances for uncollectibles)	
Accounts	63,936
Property taxes	349,124
Government grants and contracts	130,161
Student loans	1,156,591
Inventories	<u>1,103,807</u>
Total current assets	8,602,688
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	12,414
Property taxes receivable	94,163
Capital assets, not being depreciated	1,134,537
Capital assets, being depreciated, net	<u>30,341,880</u>
Total noncurrent assets	<u>31,582,994</u>
Total assets	<u>40,185,682</u>
 <u>Liabilities</u>	
Current liabilities:	
Accounts payable	947,954
Accrued payroll and employee benefits	275,153
Deposits held in custody for others	35,627
Current portion of compensated absences payable	234,837
Current portion of long-term debt	<u>1,745,211</u>
Total current liabilities	3,238,782
Noncurrent liabilities:	
Compensated absences payable	82,570
Long-term debt	<u>5,461,740</u>
Total noncurrent liabilities	<u>5,544,310</u>
Total liabilities	<u>8,783,092</u>
 <u>Net assets</u>	
Invested in capital assets, net of related debt	24,269,466
Restricted:	
Nonexpendable - endowments	12,414
Expendable - scholarships, grants and contracts	118,846
Unrestricted	<u>7,001,864</u>
Total net assets	<u>\$ 31,402,590</u>

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Financial Position - Component Unit
June 30, 2005**

		<u>Northland Pioneer College Foundation</u>
<u>Assets</u>		
Cash and cash equivalents	\$	42,208
Accounts receivable		700
Interest receivable		215
Investments:		
Certificates of deposit		135,743
Restricted certificates of deposit		38,399
Real estate		18,000
Land and building, net of accumulated depreciation		42,500
Total assets		277,765
 <u>Liabilities</u>		
Accounts payable		335
Total liabilities		335
 <u>Net Assets</u>		
Unrestricted		239,031
Temporarily restricted		38,399
Total net assets	\$	277,430

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, 2005

	Business-Type Activities
Operating revenues:	
Tuition and fees, net of scholarship allowances of \$581,990	\$ 1,996,874
Government grants and contracts	4,872,657
Private grants and contracts	255,835
Bookstore income, net of scholarship allowances of \$295,308	808,569
Dormitory rentals and fees, net of scholarship allowances of \$12,515	11,442
Other sales and services	85,909
Other	125,012
Total operating revenues	8,156,298
Operating expenses:	
<i>Educational and general:</i>	
Instruction	9,316,065
Public service	15,388
Academic support	815,634
Student services	2,571,292
Institutional support	5,008,757
Operation and maintenance of plant	1,673,191
Scholarships	511,772
<i>Auxiliary enterprises</i>	1,446,337
<i>Depreciation</i>	1,086,783
Total operating expenses	22,445,219
Operating loss	(14,288,921)
Nonoperating revenues (expenses):	
Property taxes	9,749,809
State appropriations	6,547,100
Share of state sales taxes	456,613
Investment income	155,540
Other nonoperating expenses	(191,774)
Interest expense on debt	(274,389)
Total nonoperating revenues	16,442,899
Income before other revenues, expenses, gains, or losses	2,153,978
Capital appropriations	586,300
Increase in net assets	2,740,278
Total net assets, July 1, 2004	28,662,312
Total net assets, June 30, 2005	\$ 31,402,590

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Activities - Component Unit
Year Ended June 30, 2005**

	Northland Pioneer College Foundation		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Membership dues	\$ 1,807	\$	\$ 1,807
Annual fund	6,185		6,185
Special events revenue, net	19,543		19,543
Contributions	3,242	15,585	18,827
Donations in-kind	775		775
Interest income	3,322		3,322
Total support and revenue	34,874	15,585	50,459
Net Assets Released from Restrictions:			
Satisfaction of donor restrictions	12,862	(12,862)	
Total support, revenue, and net assets released from restrictions	47,736	2,723	50,459
Expenses:			
Program services	17,637		17,637
Support services	9,084		9,084
Total expenses	26,721		26,721
Increase in net assets	21,015	2,723	23,738
Net assets, July 1, 2004	218,016	35,676	253,692
Net assets, June 30, 2005	\$ 239,031	\$ 38,399	\$ 277,430

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Cash Flows - Primary Government
Year Ended June 30, 2005**

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	\$ 1,928,717
Grants and contracts	5,002,852
Bookstore receipts	684,886
Dormitory rentals and fees	11,442
Other receipts	255,987
Payments to suppliers and providers of goods and services	(8,250,082)
Payments to employees	(10,960,494)
Payments to students for scholarships	<u>(1,958,109)</u>
Net cash used for operating activities	<u>(13,284,801)</u>
 Cash flows from noncapital financing activities:	
Property taxes	8,266,913
State appropriations	6,547,100
Share of state sales taxes	456,613
Deposits held in custody for others received	10,996
Deposits held in custody for others disbursed	<u>(13,553)</u>
Net cash provided by noncapital financing activities	<u>15,268,069</u>
 Cash flows from capital and related financing activities:	
Property taxes	1,687,770
Capital appropriations	586,300
Principal paid on capital debt	(1,698,185)
Interest paid on capital debt	(274,389)
Purchases of capital assets	<u>(1,031,623)</u>
Net cash used for capital and related financing activities	<u>(730,127)</u>
 Cash flows from investing activities:	
Interest received on investments	<u>155,540</u>
Net cash provided by investing activities	<u>155,540</u>
Net increase in cash and cash equivalents	1,408,681
Cash and cash equivalents, July 1, 2004	<u>4,402,802</u>
Cash and cash equivalents, June 30, 2005	<u><u>\$ 5,811,483</u></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, 2005
(Concluded)**

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (14,288,921)
Adjustments to reconcile for operating loss to net cash used for operating activities:	
Depreciation	1,086,783
Changes in assets and liabilities:	
Increase in:	
Government grants and contracts receivable	(125,640)
Student loans receivable	(68,157)
Inventories	(123,683)
Accounts payable	123,386
Accrued payroll and employee benefits	10,550
Compensated absences payable	55,815
Decrease in:	
Accounts receivable	45,066
Net cash used for operating activities	\$ (13,284,801)
 Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and cash equivalents	\$ 284,439
Investments	5,514,630
Restricted assets:	
Cash and cash equivalents	12,414
Total cash and cash equivalents, June 30, 2005	\$ 5,811,483

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005**

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, 2005, the District implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the District's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets or changes in net assets.

A. Reporting Entity

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

The Foundation is a legally separate, tax-exempt organization. It acts primarily as a fund-raising organization that receives gifts and bequests, administers those resources, and disburses payments to or on behalf of the District for scholarships and other educational purposes. Although the District does not control the timing or amount of the receipts from the Foundation, the Foundation's restricted resources can only be used by, or for the benefit of, the District or its constituents. Consequently, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements. For financial reporting purposes 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 (FASB) statements for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the District. The Foundation has a June 30 year end.

During the year ended June 30, 2005, the Foundation distributed \$17,637 to and on behalf of the District for both restricted and unrestricted purposes. 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, 2005**

Note 1 – Summary of Significant Accounting Policies – Continued

B. Basis of Presentation and Accounting

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

A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy District obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net assets 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. The District eliminates all internal activity.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005**

Note 1 – Summary of Significant Accounting Policies – Continued

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	10 - 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 comprised of interest, dividends, and net changes in the fair value of applicable investments.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005

Note 1 – Summary of Significant Accounting Policies – Concluded

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.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005

Note 2 – Deposits and Investments

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

At June 30, 2005, the District's deposits and investments consisted of the following:

	Reported on the Statement of Net Assets as:	
	Cash and Cash Equivalents	Investments
Deposits:		
Cash on hand	\$28,456	\$
Cash in bank	268,397	
Investments at fair value		
Cash and investments held by the County Treasurer		3,885,893
Investment in State Treasurer's investment pool		1,628,737
Total	\$296,853	\$ 5,514,630

Deposits: For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to the district. The District currently does not have a deposit policy for custodial credit risk. At June 30, 2005, the carrying amount of the District's cash in bank was \$296,853 and the bank balance was \$449,122.

Investments: At June 30, 2005, the District's investments consisted of the following:

	Weighted Average Maturity	Fair Value
County Treasurer's investment pool	14.75 months average	\$3,885,893
State Treasurer's investment pool 5	80 days average	1,628,737
Total		\$5,514,630

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005**

Note 2 – Deposits and Investments – Concluded

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 provide for shares.

Interest Rate Risk. The District currently does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The District has no investment policy that would further limit its investment choices. As of June 30, 2005, the District's investment in the State and County Treasurer's investment pools did not receive a credit quality rating from a national rating agency.

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

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005**

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 809,291	\$	\$	\$ 809,291
Construction in progress (estimated cost to complete \$ 1,174,756)	3,748,595	336,651	3,760,000	325,246
<i>Total capital assets not being depreciated</i>	<u>4,557,886</u>	<u>336,651</u>	<u>3,760,000</u>	<u>1,134,537</u>
Capital assets being depreciated:				
Buildings	25,703,167	4,277,554		29,980,721
Equipment	2,491,029	106,870		2,597,899
Improvements other than buildings	5,365,386		385,784	4,979,602
Library books	524,849	69,114	26,618	567,345
<i>Total capital assets being depreciated</i>	<u>34,084,431</u>	<u>4,453,538</u>	<u>412,402</u>	<u>38,125,567</u>
Less accumulated depreciation for:				
Buildings	4,074,729	609,432		4,684,161
Equipment	1,312,450	303,061		1,615,511
Improvements other than buildings	1,091,237	134,135		1,225,372
Library books	238,125	47,136	26,618	258,643
<i>Total accumulated depreciation</i>	<u>6,716,541</u>	<u>1,093,764</u>	<u>26,618</u>	<u>7,783,687</u>
Total capital assets being depreciated, net	<u>27,367,890</u>	<u>3,359,774</u>	<u>385,784</u>	<u>30,341,880</u>
Capital assets, net	<u>\$ 31,925,776</u>	<u>\$ 3,696,425</u>	<u>\$ 4,145,784</u>	<u>\$ 31,476,417</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, 2005:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due within one year
Compensated absences payable	\$ 261,592	\$ 272,766	\$ 216,952	\$ 317,407	\$ 234,837
General obligation refunding bonds	\$ 7,600,000	\$	\$ 1,445,000	\$ 6,155,000	\$ 1,475,000
Certificates of participation payable	1,040,000		180,000	860,000	195,000
Installment purchase contracts payable	265,136		73,185	191,951	75,211
Total long-term debt	<u>\$ 8,905,136</u>	<u>\$</u>	<u>\$ 1,698,185</u>	<u>\$ 7,206,951</u>	<u>\$ 1,745,211</u>

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005**

Note 4 – Long-Term Liabilities - Continued

Bonds – The District’s bonded debt consists of callable general obligation bonds with interest payable semi-annually. In September 2003, the District issued \$9,015,000 of general obligation refunding bonds, with an average interest rate of 2.79 percent. The proceeds were used to pay costs relating to the defeasance of the general obligation bonds issued in July 1995. The District repays general obligations bonds from voter-approved property taxes.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old 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, 2005, \$6,295,000 of bonds outstanding are considered defeased.

Bonds outstanding at June 30, 2005, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
General obligation refunding bonds, Series 2003	\$ 9,015,000	7/1/05 – 09	2.0% - 3.5%	\$ 6,155,000

The following schedule details debt service requirements to maturity for the District’s bonds payable at June 30, 2005:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,475,000	\$ 170,238
2007	1,515,000	140,737
2008	1,560,000	99,075
2009	1,605,000	56,175
Total	\$ 6,155,000	\$ 466,225

Certificates of participation – In April of 1994, the District issued \$2,410,000 in certificates of participation with an average interest rate of 6.17 percent. The certificates 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, 2005, \$585,000 of defeased bonds is outstanding.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005**

Note 4 – Long-Term Liabilities - Concluded

Certificates outstanding at June 30, 2005, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Certificates of participation, Series 1994	\$ 2,410,000	7/1/05 - 09	6.0 % - 6.55%	\$ 860,000

The following schedule details debt service requirements to maturity for the District's certificates of participation payable at June 30, 2005:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 195,000	\$ 55,308
2007	210,000	43,022
2008	220,000	29,583
2009	235,000	7,696
Total	\$ 860,000	\$ 135,609

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, 2005.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 75,211	\$ 4,765
2007	77,294	2,683
2008	39,446	542
Total	\$ 191,951	\$ 7,990

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005

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 other Arizona community college districts and 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 one year. The District will be charged for any such assessment in the following year. The District has never been charged such an assessment.

The District also carries commercial insurance for other risks of loss, including workers' compensation, accidental death and dismemberment for students and employees, employee travel, and extended reporting for errors and omissions. Settled claims resulting from these risks have 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.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005**

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, Arizona 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, 2005, 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, 2005, 2004, and 2003, were \$508,940, \$498,075, and \$200,772, respectively, which were equal to the required contributions for the year.

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	\$ 15,680,065
Contract services	1,989,023
Communications and utilities	1,149,169
Depreciation	1,086,783
Supplies and other services	1,063,039
Other	965,368
Scholarships	<u>511,772</u>
Total	<u>\$ 22,445,219</u>

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005**

Note 8 – Discretely Presented Component Unit Disclosures

A. Summary of Significant Accounting Policies

The financial statements of Northland Pioneer College Foundation, Inc. (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 NPC 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 assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 which the dues and revenues are related.

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.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2005**

Note 8 – Discretely Presented Component Unit Disclosures - Concluded

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, 2005, is as follows:

Petty cash	\$ 66
Checking	36,035
Money Market	6,107
	<u>\$42,208</u>

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, 2005, the certificates of deposit totaled \$174,142, of which \$38,399 was temporarily restricted. Real estate totaled \$18,000 as of June 30, 2005. These investments are stated at market value and adjustments have been made to accrue earned interest income on the certificates of deposit. The certificates of deposit earned interest at rates varying from 1.25% to 2.40% for the year ended June 30, 2005.

SUPPLEMENTARY INFORMATION

**Navajo County Community College District
(Northland Pioneer College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
Passed through White Mountain Apache Tribe: WIA Adult Program	17.258	B51605008155	\$ <u>48,769</u>
U.S. Small Business Administration			
Passed through Maricopa County Community College District: Small Business Development Center	59.037	5-603001Z-0003-13	<u>90,182</u>
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		75,157
Federal Work-Study Program	84.033		96,753
Federal Pell Grant Program	84.063		<u>1,921,964</u>
Total Student Financial Assistance Cluster			<u>2,093,874</u>
Passed through the Arizona Department of Education:			
Adult Education - State Grant Program	84.002	05FAEABE-570595-01A	242,768
Higher Education - Institutional Aid Title III	84.031	P031A000160	132,878
Vocational Education - Basic Grants to States	84.048	05FCTDBG-570595-04A	268,017
Tech-Prep Education	84.243	05FCTDTP-570595-05A	154,140
Passed through Arizona Commission for Postsecondary Education:			
Leveraging Educational Assistance Partnership	84.069	205PE239	<u>30,969</u>
Total U.S. Department of Education			<u>2,922,646</u>
Total Expenditures of Federal Awards			<u>\$ <u>3,061,597</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, 2005**

Note 1 – Basis of Presentation

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

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

The program titles and CFDA numbers were obtained from the 2005 *Catalog of Federal Domestic Assistance*.

Note 3 – Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2005.



Gary Heinfeld, CPA, CGFM
Nancy A. Meech, CPA, CGFM
Jennifer L. Shields, CPA
Corey Arvizu, CPA

Scott W. Kies, CPA
Kimberly A. Robinson, CPA
Kera Badalamenti, CPA

www.heinfeldmeech.com

**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**

The Auditor General of the State of Arizona

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 as of and for the year ended June 30, 2005, which collectively comprise Navajo County Community College District's basic financial statements, and have issued our report thereon dated August 31, 2006. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40 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 Navajo County Community College 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 the internal control over financial reporting. However, we noted certain matters involving the 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 the internal control over financial reporting that, in our judgment, could adversely affect Navajo County Community College District's ability to initiate, record, process 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 05-1, 05-2, 05-3, and 05-4.

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 the internal control over financial reporting would not necessarily disclose all matters in the 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 all of them to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Navajo County Community College 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*.

We also noted certain additional matters that we reported to management of Navajo County Community College District in a separate letter dated August 31, 2006.

This report is intended solely for the information and use of the Arizona State Legislature, the Auditor General of the State of Arizona, 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

August 31, 2006



Gary Heinfeld, CPA, CGFM
Nancy A. Meech, CPA, CGFM
Jennifer L. Shields, CPA
Corey Arvizu, CPA

Scott W. Kies, CPA
Kimberly A. Robinson, CPA
Kera Badalamenti, CPA

www.heinfeldmeech.com

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Auditor General of the State of Arizona

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, 2005. Navajo County Community College 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 Navajo County Community College District's management. Our responsibility is to express an opinion on Navajo County Community College 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 Navajo County Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Navajo County Community College District's compliance with those requirements.

As described in item 05-101 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, 2005.

Internal Control Over Compliance

The management of Navajo County Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Navajo County Community College 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Navajo County Community College 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 05-101.

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 the internal control over compliance would not necessarily disclose all matters in the 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 Arizona State Legislature, the Auditor General of the State of Arizona, 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

August 31, 2006

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
(NORTHLAND PIONEER COLLEGE)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Reportable condition(s) identified that are not considered to be a material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Reportable condition(s) identified that are not considered to be a material weakness(es)? yes X 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 section 510(a) of OMB Circular A-133? X yes no

Identification of major programs:

<u>CFDA Numbers</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

Auditee qualified as low-risk auditee? yes X no

Other Matters

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

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
(NORTHLAND PIONEER COLLEGE)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

SECTION II - FINANCIAL STATEMENT FINDINGS

05-1 CONDITION/CONTEXT

Material reconciling items on the District's cash accounts were not promptly investigated as the District did not perform timely reconciliations of its bank account statements to the District's accounting records. Reconciling items were not investigated until the end of the fiscal year, which resulted in a detailed reconciliation of each bank account at year-end. Due to this lengthy procedure performed at year-end, not all items were investigated, and material reconciling items that could not be resolved were left unresolved.

CRITERIA

Performing bank reconciliations on a timely basis helps ensure accuracy of cash reported at the bank and in the District's accounting records.

EFFECT

Cash recorded in the District's accounting records may be misstated due to the failure of performing timely bank reconciliations. In addition, audit adjustments were made to correct the errors.

CAUSE

District finance department personnel did not devote sufficient time and attention to performance of monthly bank reconciliations.

RECOMMENDATION

The District should reconcile its bank accounts to its accounting records on a monthly basis and investigate reconciling items immediately.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District is aware of the issue, concurs with the finding, and has begun implementing procedures to correct the situation by restructuring the finance department and reassigning duties.

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
(NORTHLAND PIONEER COLLEGE)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

05-2 CONDITION/CONTEXT

The District did not properly record transactions in its accounting records. The District did not adjust its accounting records to reflect year-end balances and did not properly classify transactions. Items that were noted include the following:

- Property tax revenues and receivables were overstated during the fiscal year and were reclassified incorrectly at the end of the fiscal year.
- Balance sheet accounts (e.g., inventory, prepaids, and leases) were not adjusted at fiscal year-end to reflect true balances at year-end.

CRITERIA

Transactions must be recorded completely and classified correctly to reflect the District's true financial position and activity during the fiscal year.

EFFECT

Transactions recorded in the District's accounting records did not always reflect the District's true financial position and activity during the fiscal year. In addition, audit adjustments were made to correct the errors.

CAUSE

Transactions were recorded without regard to the District's *Chart of Accounts*. In addition, there was a lack of formal review of transactions especially at the individual sites.

RECOMMENDATION

To help ensure accuracy and completeness of recording transactions, the District should implement procedures that include reviewing the transactions being recorded and making the proper adjusting entries at year-end to reflect the District's true financial position and activity during the fiscal year.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District is aware of the issue, concurs with the finding, and has begun implementing procedures to correct the situation by restructuring the finance department and reassigning duties.

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
(NORTHLAND PIONEER COLLEGE)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

05-3 CONDITION/CONTEXT

The District's information system lacked adequate 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.

CRITERIA

Protecting information system resources and processing information on secure systems with provisions for optimum recovery from potential threats are essential to effective District management.

CAUSE

Computer access to District records was not limited to specific individuals with the logical need for such access. The District lacked written procedures for the physical security of computer equipment and for computer related emergencies. Passwords were not changed on a periodic basis and a disaster recovery plan was not established.

RECOMMENDATION

The District should prepare, implement, and maintain written policies and procedures that address computer access and physical security and backup and disaster recovery.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District is aware of the issue, concurs with the finding, and the District has begun implementing procedures in the areas of physical security controls, program change controls, database controls and backup/recovery controls. 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 a 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.

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
(NORTHLAND PIONEER COLLEGE)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

SECTION II - FINANCIAL STATEMENT FINDINGS (Concl'd)

05-4 CONDITION/CONTEXT

During our review of the District's capital assets, we noted the following:

1. Equipment additions listed on the capital asset additions schedule were \$77,283 less than the actual additions reviewed from the supporting documentation provided by the District.
2. Assets costing \$385,784 were reclassified during the year; however, the assets were reported in both "buildings" and "improvements other than buildings" on the capital assets schedules provided for the audit.
3. The additions for library books, vehicles and equipment were not listed by individual asset on the schedules. The additions were noted as "Additions during FY04/05" and dated "6/30/05" with no calculated depreciation. In addition, upon review of the supporting invoices, it was determined that the assets were acquired in August and September of 2004.
4. Supporting documentation for the additions did not agree to the "acquired value" reported on the capital assets schedules.
5. Review of the Governing Board minutes indicated that a request was made to the Board to dispose of surplus vehicles and equipment with an original cost of \$15,367 through public auction; however, the assets were not deleted from the capital asset listing.

CRITERIA

Generally accepted accounting principles require that capital assets be recorded correctly in the District's accounting records to reflect the District's true balance of its capital assets at fiscal year-end.

EFFECT

Capital assets recorded in the District's accounting records may be misstated due to the failure of recording assets at the date of acquisition, deleting assets that are no longer with the District, and maintaining proper documentation to support the amounts reported on the capital assets listing.

CAUSE

Capital assets were not recorded in the District's records on a timely basis and adequate supporting documentation was not maintained due to lack of qualified finance department staff.

RECOMMENDATION

To ensure capital assets are properly reported, the District should strengthen and/or implement procedures for recording capital asset additions at the date of acquisition, deleting assets that are no longer with the District, and maintaining proper documentation to support the amounts reported on the capital assets listing.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District is aware of the issue, concurs with the finding, and the District has begun implementing procedures for recording assets at the date of acquisition, deleting assets that are no longer with the District, and maintaining proper documentation to support the amounts reported on the capital assets listing.

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
(NORTHLAND PIONEER COLLEGE)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF EDUCATION

Finding No.: 05-101
CFDA No.: 84.007, 84.033, 84.063
Program Name: Student Financial Assistance Cluster: Federal Supplemental
Education Opportunity Grants, Federal Work-Study Program, Federal
Pell Grant Program
Question Cost: Unknown
Contact Person: V. Blaine Hatch, Vice President for Administrative Services
Anticipated Completion Date: January 2007

CONDITION/CONTEXT

The District's fiscal year 2004-05 single audit reporting package was not submitted within nine months after the end of the audit period. In addition, the District did not issue the reporting package by the agreed upon deadline with the oversight agency of September 30, 2006.

CRITERIA

The Office of Management and Budget (OMB) Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, §____.320, requires that the single audit reporting package be submitted within nine months after the end of the audit period, unless a longer period is agreed to by the oversight agency.

EFFECT

Due to the late submission of the District's single audit reporting package, the District has a material internal control weakness and material noncompliance with OMB Circular A-133 report submission requirements, which impacts all Federal programs administered by the District.

CAUSE

The District's accounting records required significant adjustments to reflect the District's actual financial activity due to a lack of qualified finance department staff.

RECOMMENDATION

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.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

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, 2006 will be issued by the established deadline, March 31, 2007.

