

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

**Single Audit Reporting Package**

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**Year ended June 30, 2006**

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## 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, 2006, 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 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, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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 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 January 18, 2007, 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

January 18, 2007

**Navajo County Community College District  
(Northland Pioneer College)  
Management's Discussion and Analysis  
Year Ended June 30, 2006**

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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, 2006. 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, 2006. 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, 2006. 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, 2006. 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, 2006**

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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, 2006 and 2005:

<b><u>Condensed Statement of Net Assets – Primary Government</u></b>			
	<b><u>June 30, 2006</u></b>	<b><u>June 30, 2005</u></b>	<b><u>% Change</u></b>
<b>Assets:</b>			
Current assets	\$ 10,012,546	\$ 8,602,688	16%
Noncurrent assets, other than capital assets	101,166	106,577	-5%
Capital assets, net	<u>32,465,028</u>	<u>31,476,417</u>	3%
Total assets	<u>42,578,740</u>	<u>40,185,682</u>	6%
<b>Liabilities:</b>			
Other liabilities	714,773	1,258,734	-43%
Long-term liabilities	<u>5,757,664</u>	<u>7,524,358</u>	-23%
Total liabilities	<u>6,472,437</u>	<u>8,783,092</u>	-26%
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	27,003,288	24,269,466	11%
Restricted net assets	72,871	131,260	-44%
Unrestricted net assets	<u>9,030,144</u>	<u>7,001,864</u>	29%
Total net assets	<u><u>\$36,106,303</u></u>	<u><u>\$31,402,590</u></u>	15%

The increase in current assets was a result of an increase in cash and cash equivalents for an increase in state revenues that were unexpended at year-end. The decrease in long-term liabilities was primarily due to the retirement of \$1.5 million of general obligation bonds during the year. The decrease in other liabilities was due to a decrease in accounts payable at year-end. There are no restrictions, commitments, or other limitations that affect the availability of current

**Navajo County Community College District  
(Northland Pioneer College)  
Management's Discussion and Analysis  
Year Ended June 30, 2006**

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resources. The decrease in restricted net assets was primarily a result of utilization of available assets to fund current year scholarship expenses. The increase in invested in capital assets, net of related debt, was primarily the result of additions to construction in progress for the renovation of the Painted Desert Campus as well as technology related equipment additions during the fiscal year. The increase in unrestricted net assets was due to an increase in state appropriations, which were unexpended during the year due to other available revenue sources.

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.

**Navajo County Community College District  
(Northland Pioneer College)  
Management's Discussion and Analysis  
Year Ended June 30, 2006**

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

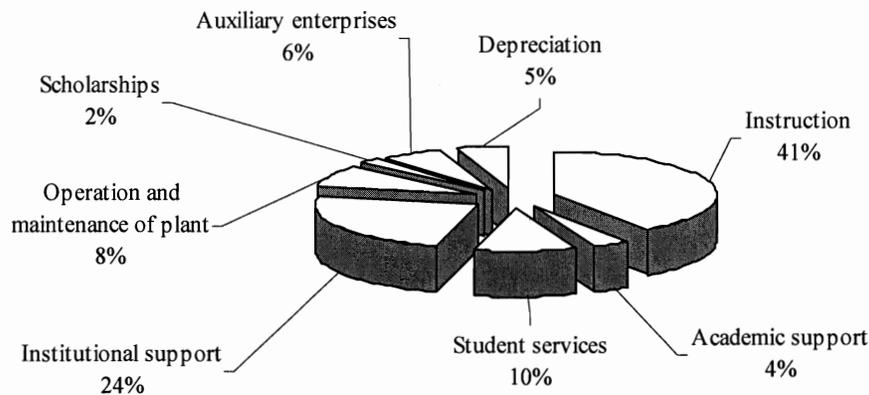
	<u>2006</u>	<u>2005</u>	<u>% Change</u>
<b>Revenues:</b>			
<i>Operating</i>			
Tuition and fees	\$ 2,390,338	\$ 1,996,874	20%
Government grants and contracts	4,753,639	4,872,657	-2%
Private grants and contracts	339,768	255,835	33%
Bookstore income	849,174	808,569	5%
Other	231,919	222,363	4%
<i>Nonoperating</i>			
Property taxes	11,122,948	9,749,809	14%
State appropriations	7,147,900	6,547,100	9%
Share of state sales taxes	474,307	456,613	4%
Investment income	205,191	155,540	32%
Total revenues	<u>27,515,184</u>	<u>25,065,360</u>	10%
<b>Expenses:</b>			
Operating	23,162,318	22,445,219	3%
Nonoperating	226,053	466,163	-52%
Total expenses	<u>23,388,371</u>	<u>22,911,382</u>	2%
Income before other revenues, expenses, gains, or losses	4,126,813	2,153,978	92%
Capital appropriations	576,900	586,300	-2%
Increase in net assets	4,703,713	2,740,278	72%
Total net assets, July 1	<u>31,402,590</u>	<u>28,662,312</u>	10%
<b>Total net assets, June 30</b>	<u>\$36,106,303</u>	<u>\$31,402,590</u>	15%

The revenues increased in fiscal year 2005-06 by \$2.4 million, a 10 percent increase from the prior year. Tuition and fees increased by \$393,464 (20 percent) as a result of increased tuition rates in fiscal year 2005-06. Property tax revenues increased by \$1.4 million (14 percent) as a result of an increase in the property tax levy, along with an increase in assessed valuation. State appropriations increased by \$600,800 (9 percent) due to an increase in the assessed valuation of the State's rural districts, which resulted in an increase in state equalization aid for the District during the fiscal year.

**Navajo County Community College District  
(Northland Pioneer College)  
Management's Discussion and Analysis  
Year Ended June 30, 2006**

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
<b>Operating Expenses</b>			
Educational and general:			
Instruction	\$ 9,299,812	\$ 9,316,065	<-1%
Public service	10,020	15,388	-35%
Academic support	874,888	815,634	7%
Student services	2,395,805	2,571,292	-7%
Institutional support	5,583,393	5,008,757	11%
Operation and maintenance of plant	1,831,712	1,673,191	9%
Scholarships	555,108	511,772	8%
Auxiliary enterprises	1,479,195	1,446,337	2%
Depreciation	1,132,385	1,086,783	4%
Total operating expenses	<u>23,162,318</u>	<u>22,445,219</u>	3%
<b>Nonoperating Expenses</b>			
Other		191,774	-100%
Interest expense on debt	226,053	274,389	-18%
Total nonoperating expenses	<u>226,053</u>	<u>466,163</u>	-52%
<b>Total Expenses</b>	<u>\$23,388,371</u>	<u>\$22,911,382</u>	2%

**Operating Expenses by Category**



Operating expenses in 2005-06 for academic support, institutional support and operation and maintenance of plant increased due to salary increases during the fiscal year. Operating expenses were also affected by additional increases in health insurance costs during the year.

**Navajo County Community College District  
(Northland Pioneer College)  
Management's Discussion and Analysis  
Year Ended June 30, 2006**

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**Capital Assets and Debt Administration**

The District approved an updated Capital Project Development Plan in January 2006. The plan describes new construction and renovation projects. An expansion and remodel of a classroom and office facility at the Painted Desert Campus continued during this fiscal year.

At June 30, 2006, the District had two debt issues outstanding, one general obligation bond originally issued for \$9,015,000 with \$4,680,000 outstanding that is funded from secondary property taxes, and one issue of certificates of participation originally issued for \$2,410,000 with \$665,000 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 continue to decline as a percentage of total revenue. The District will continue to shift additional financial responsibility for education to students in the form of increased tuition and fees. It is also expected that property taxes will be levied at the maximum rate. The District is currently planning the development of a comprehensive Master Facilities Plan to address the future direction and growth of the District.

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. In fiscal year 2005, the District, in conjunction with Coconino Community College, received a Title III – Strengthening Institutions Program grant from the U.S. Department of Education. The grant provides funding over a five-year period to develop distance learning.

The District qualified for State equalization aid totaling \$2,730,700 for the fiscal year, with that amount being included in the state appropriations total. Equalization aid is increasingly becoming a critical 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, 2006**

	<b>Business-Type Activities</b>
<b><u>Assets</u></b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 1,200,651
Investments	5,920,254
Receivables (net of allowances for uncollectibles)	
Accounts	84,514
Property taxes	366,249
Government grants and contracts	133,846
Student tuition	1,383,160
Inventories	908,872
Prepaid items	15,000
Total current assets	10,012,546
<b>Noncurrent assets:</b>	
Restricted assets:	
Cash and cash equivalents	12,414
Property taxes receivable	88,752
Capital assets, not being depreciated	2,954,171
Capital assets, being depreciated, net	29,510,857
Total noncurrent assets	32,566,194
Total assets	42,578,740
 <b><u>Liabilities</u></b>	
<b>Current liabilities:</b>	
Accounts payable	366,522
Accrued payroll and employee benefits	318,048
Deposits held in custody for others	30,203
Current portion of compensated absences payable	221,943
Current portion of long-term debt	1,802,294
Total current liabilities	2,739,010
<b>Noncurrent liabilities:</b>	
Compensated absences payable	73,981
Long-term debt	3,659,446
Total noncurrent liabilities	3,733,427
Total liabilities	6,472,437
 <b><u>Net assets</u></b>	
Invested in capital assets, net of related debt	27,003,288
Restricted:	
Nonexpendable - endowments	12,414
Expendable - scholarships, grants and contracts	60,457
Unrestricted	9,030,144
Total net assets	\$ 36,106,303

See accompanying notes to financial statements.

**Navajo County Community College District  
(Northland Pioneer College)  
Statement of Financial Position - Component Unit  
June 30, 2006**

		<b><u>Northland Pioneer College Foundation</u></b>
<b><u>Assets</u></b>		
Cash and cash equivalents	\$	43,579
Restricted cash-savings		5,013
Prepaid expenses		900
Accounts receivable		852
Interest receivable		559
Investments:		
Certificates of deposit		106,457
Restricted cash		35,583
Real estate		18,000
Land and building, net of accumulated depreciation		41,250
Total assets		252,193
 <b><u>Liabilities</u></b>		
Accounts payable		974
Total liabilities		974
 <b><u>Net Assets</u></b>		
Unrestricted		210,623
Temporarily restricted		40,596
Total net assets	\$	251,219

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, 2006**

	<b>Business-Type Activities</b>
<b>Operating revenues:</b>	
Tuition and fees, net of scholarship allowance of \$330,483	\$ 2,390,338
Government grants and contracts	4,753,639
Private grants and contracts	339,768
Bookstore income, net of scholarship allowance of \$290,096	849,174
Dormitory rentals and fees, net of scholarship allowance of \$10,889	1,290
Other sales and services	77,568
Other	153,061
Total operating revenues	8,564,838
<b>Operating expenses:</b>	
<i>Educational and general:</i>	
Instruction	9,299,812
Public service	10,020
Academic support	874,888
Student services	2,395,805
Institutional support	5,583,393
Operation and maintenance of plant	1,831,712
Scholarships	555,108
<i>Auxiliary enterprises</i>	1,479,195
<i>Depreciation</i>	1,132,385
Total operating expenses	23,162,318
Operating loss	(14,597,480)
<b>Nonoperating revenues (expenses):</b>	
Property taxes	11,122,948
State appropriations	7,147,900
Share of state sales taxes	474,307
Investment income	205,191
Interest expense on debt	(226,053)
Total nonoperating revenues (expenses)	18,724,293
Income before other revenues, expenses, gains, or losses	4,126,813
<b>Capital appropriations</b>	576,900
Increase in net assets	4,703,713
Total net assets, July 1, 2005	31,402,590
<b>Total net assets, June 30, 2006</b>	<b>\$ 36,106,303</b>

See accompanying notes to financial statements.

**Navajo County Community College District  
(Northland Pioneer College)  
Statement of Activities - Component Unit  
Year Ended June 30, 2006**

	<b>Northland Pioneer College Foundation</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Support and Revenue:</b>			
Membership dues	\$ 712	\$	\$ 712
Annual fund	955		955
Special events revenue, net	21,764		21,764
Contributions	95	8,763	8,858
Donations in-kind	600		600
Interest income	4,661		4,661
Total support and revenue	28,787	8,763	37,550
<b>Net Assets Released from Restrictions:</b>			
Satisfaction of donor restrictions	6,566	(6,566)	
Total support, revenue, and net assets released from restrictions	35,353	2,197	37,550
<b>Expenses:</b>			
Program services	58,186		58,186
Support services	5,575		5,575
Total expenses	63,761		63,761
Increase (decrease) in net assets	(28,408)	2,197	(26,211)
Net assets, July 1, 2005	239,031	38,399	277,430
<b>Net assets, June 30, 2006</b>	<b>\$ 210,623</b>	<b>\$ 40,596</b>	<b>\$ 251,219</b>

See accompanying notes to financial statements.

**Navajo County Community College District  
(Northland Pioneer College)  
Statement of Cash Flows - Primary Government  
Year Ended June 30, 2006**

	<b>Business-Type Activities</b>
<b>Cash flows from operating activities:</b>	
Tuition and fees	\$ 2,163,769
Grants and contracts	5,089,722
Bookstore receipts	849,174
Dormitory rentals and fees	1,290
Other receipts	210,051
Payments to suppliers and providers of goods and services	(9,637,219)
Payments to employees	(11,292,586)
Payments to students for scholarships	(1,480,213)
	(14,096,012)
<b>Net cash used for operating activities</b>	
 <b>Cash flows from noncapital financing activities:</b>	
Property taxes	9,453,174
State appropriations	7,147,900
Share of state sales taxes	474,307
Deposits held in custody for others received	27,016
Deposits held in custody for others disbursed	(25,848)
	17,076,549
<b>Net cash provided by noncapital financing activities</b>	
 <b>Cash flows from capital and related financing activities:</b>	
Property taxes	1,661,060
Capital appropriations	576,900
Principal paid on capital debt	(1,745,211)
Interest paid on capital debt	(226,053)
Purchases of capital assets	(2,130,588)
	(1,863,892)
<b>Net cash used for capital and related financing activities</b>	
 <b>Cash flows from investing activities:</b>	
Interest received on investments	205,191
	205,191
<b>Net cash provided by investing activities</b>	
	205,191
<b>Net increase in cash and cash equivalents</b>	
	1,321,836
Cash and cash equivalents, July 1, 2005	5,811,483
	5,811,483
<b>Cash and cash equivalents, June 30, 2006</b>	<b>\$ 7,133,319</b>

(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, 2006  
(Concluded)**

	<b>Business-Type Activities</b>
<b>Reconciliation of operating loss to net cash used for operating activities:</b>	
Operating loss	\$ (14,597,480)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,132,385
<b>Changes in assets and liabilities:</b>	
Increase in:	
Accounts receivable	(20,578)
Government grants and contracts receivable	(3,685)
Student tuition receivable	(226,569)
Prepaid items	(15,000)
Accrued payroll and employee benefits	42,895
Decrease in:	
Inventories	194,935
Accounts payable	(581,432)
Compensated absences payable	(21,483)
Net cash used for operating activities	\$ (14,096,012)
<b>Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:</b>	
Cash and cash equivalents	\$ 1,200,651
Investments	5,920,254
Restricted assets:	
Cash and cash equivalents	12,414
Total cash and cash equivalents, June 30, 2006	\$ 7,133,319

See accompanying notes to financial statements.

**Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2006**

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**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).

***A. Reporting Entity***

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

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

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

During the year ended June 30, 2006, the Foundation distributed \$58,186 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, 2006**

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**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.

**Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2006**

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**Note 1 – Summary of Significant Accounting Policies – Continued**

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

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

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

***C. Cash and Investments***

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.

**Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2006**

**Note 1 – Summary of Significant Accounting Policies – Concluded**

	<b>Capitalization Threshold</b>	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
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.

***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, 2006**

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**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, 2006, 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	\$ 3,807	\$
Cash in bank	1,209,258	
Investments:		
Cash and investments held by the County Treasurer		4,536,919
Investment in State Treasurer’s investment pool		1,383,335
Total	\$ 1,213,065	\$ 5,920,254

Deposits: At June 30, 2006, the carrying amount of the District’s cash in bank was \$1,213,065 and the bank balance was \$2,393,457. 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, 2006, \$2,268,077 of the District’s bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 89,736
Uninsured with collateral held by the pledging financial institution	2,178,341
Total	\$2,268,077

**Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2006**

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**Note 2 – Deposits and Investments – Concluded**

Investments: At June 30, 2006, the District’s investments consisted of the following:

	Weighted Average Maturity	Fair Value
County Treasurer’s investment pool	16.8 months average	\$4,536,919
State Treasurer’s investment pool 5	51.1 days average	1,383,335
Total		\$5,920,254

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

***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, 2006, 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, 2006**

**Note 3 – Capital Assets**

Capital asset activity for the year ended June 30, 2006, was as follows:

	<b>Balance July 1, 2005</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2006</b>
<b>Capital assets not being depreciated:</b>				
Land	\$ 809,291	\$	\$	\$ 809,291
Construction in progress (estimated cost to complete \$145,986)	325,246	1,819,634		2,144,880
<i>Total capital assets not being depreciated</i>	<u>1,134,537</u>	<u>1,819,634</u>		<u>2,954,171</u>
<b>Capital assets being depreciated:</b>				
Buildings	29,980,721			29,980,721
Equipment	2,597,899	279,001	34,200	2,842,700
Improvements other than buildings	4,979,602			4,979,602
Library books	567,345	31,953		599,298
<i>Total capital assets being depreciated</i>	<u>38,125,567</u>	<u>310,954</u>	<u>34,200</u>	<u>38,402,321</u>
<b>Less accumulated depreciation for:</b>				
Buildings	4,684,161	702,569		5,386,730
Equipment	1,615,511	254,284	24,608	1,845,187
Improvements other than buildings	1,225,372	124,490		1,349,862
Library books	258,643	51,042		309,685
<i>Total accumulated depreciation</i>	<u>7,783,687</u>	<u>1,132,385</u>	<u>24,608</u>	<u>8,891,464</u>
<i>Total capital assets being depreciated, net</i>	<u>30,341,880</u>	<u>(821,431)</u>	<u>9,592</u>	<u>29,510,857</u>
<b>Capital assets, net</b>	<u>\$ 31,476,417</u>	<u>\$ 998,203</u>	<u>\$ 9,592</u>	<u>\$ 32,465,028</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, 2006:

	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2006</b>	<b>Due within one year</b>
Compensated absences payable	<u>\$ 317,407</u>	<u>\$ 213,026</u>	<u>\$ 234,509</u>	<u>\$ 295,924</u>	<u>\$ 221,943</u>
General obligation refunding bonds	6,155,000		1,475,000	4,680,000	1,515,000
Certificates of participation payable	860,000		195,000	665,000	210,000
Installment purchase contracts payable	191,951		75,211	116,740	77,294
<b>Total long-term debt</b>	<u>\$7,206,951</u>	<u>\$</u>	<u>\$1,745,211</u>	<u>\$5,461,740</u>	<u>\$1,802,294</u>

**Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2006**

**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, 2006, \$4,820,000 of bonds outstanding are considered defeased.

Bonds outstanding at June 30, 2006, 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	7/1/06-7/1/09	2.0% - 3.5%	\$4,680,000

The following schedule details debt service requirements to maturity for the District’s bonds payable at June 30, 2006:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$1,515,000	\$140,737
2008	1,560,000	99,075
2009	1,605,000	56,175
Total	<u>\$4,680,000</u>	<u>\$295,987</u>

**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, 2006, \$390,000 of defeased bonds is outstanding.

**Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2006**

**Note 4 – Long-Term Liabilities - Concluded**

Certificates outstanding at June 30, 2006, 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	7/1/06 - 09	6.0% - 6.55%	\$665,000

The following schedule details debt service requirements to maturity for the District's certificates of participation payable at June 30, 2006:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$210,000	\$43,022
2008	220,000	29,583
2009	235,000	7,696
Total	<u>\$665,000</u>	<u>\$80,301</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, 2006.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 77,294	\$2,683
2008	39,446	542
Total	<u>\$116,740</u>	<u>\$3,225</u>

**Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2006**

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**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, 2006**

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**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 85012-3910 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, 2006, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 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, 2006, 2005, and 2004, were \$729,113, \$508,940, and \$498,075, 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	\$15,806,791
Contract services	2,010,141
Communications and utilities	1,191,012
Depreciation	1,132,385
Supplies and other services	1,072,670
Other	1,394,211
Scholarships	555,108
Total	<u>\$23,162,318</u>

**Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2006**

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**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, 2006**

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**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, 2006, is as follows:

Petty cash	\$ 121
Checking	31,145
Money Market	<u>17,326</u>
	<u>\$48,592</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, 2006, the certificates of deposit totaled \$142,040, of which \$35,583 was temporarily restricted. Real estate totaled \$18,000 as of June 30, 2006. 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 2.39% to 4.18% for the year ended June 30, 2006.

**SUPPLEMENTARY INFORMATION**

**Navajo County Community College District  
(Northland Pioneer College)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Labor</b>			
Passed through White Mountain Apache Tribe:			
WIA Adult Program	17.258	B51605008155	\$ 33,948
Passed through Arizona Department of Commerce:			
WIA Pilots, Demonstration, and Research Projects	17.261	2IBM8671	<u>224</u>
Total U.S. Department of Labor			<u>34,172</u>
<b>U.S. Small Business Administration</b>			
Passed through Maricopa County Community College District:			
Small Business Development Center	59.037	5-603001Z-0003-14	<u>70,312</u>
<b>U.S. Department of Health and Human Services</b>			
Rural Access to Emergency Services Grant	93.259	5-H92RH04067-02-00	<u>43,888</u>
<b>U.S. Department of Education</b>			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		76,600
Federal Work-Study Program	84.033		82,293
Federal Pell Grant Program	84.063		<u>1,638,780</u>
Total Student Financial Assistance Cluster			<u>1,797,673</u>
Passed through the Arizona Department of Education:			
Adult Education - State Grant Program	84.002	06FAEABE-670595-01A	278,228
Higher Education - Institutional Aid Title III	84.031	P031A000160	179,590
Vocational Education - Basic Grants to States	84.048	06FCTDBG-670595-04A	214,789
Tech-Prep Education	84.243	06FCTDTP-670595-05A	142,022
Passed through Arizona Commission for Postsecondary Education:			
Leveraging Educational Assistance Partnership	84.069	206PE288	<u>60,460</u>
Total U.S. Department of Education			<u>2,672,762</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 2,821,134</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, 2006**

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**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 2006 *Catalog of Federal Domestic Assistance*.

**Note 3 – Subrecipients**

The District did not provide federal awards to subrecipients during the year ended June 30, 2006.



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Corey Arvizu, CPA

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**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, 2006, which collectively comprise Navajo County Community College District's basic financial statements, and have issued our report thereon dated January 18, 2007. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 06-1, 06-2, and 06-3.

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 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 January 18, 2007.

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

January 18, 2007



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**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, 2006. 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.

In our opinion Navajo County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

### 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the 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

January 18, 2007

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT  
(NORTHLAND PIONEER COLLEGE)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006**

**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?        yes   X   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: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?        yes   X   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
84.048	Vocational Education – Basic Grants to States

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, 2006**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

06-1 CONDITION/CONTEXT

Material reconciling items on the District's cash accounts were not investigated as the District did not perform reconciliations of its bank account statements to the District's accounting records and financial statements.

CRITERIA

Performing bank reconciliations on a timely basis is a key internal control activity which helps ensure accuracy of cash and investments reported in the District's accounting records and financial statements.

EFFECT

Cash recorded in the District's accounting records may be misstated due to the failure of performing bank reconciliations.

CAUSE

The District has not allocated adequate resources and/or personnel to the bank reconciliation processes and procedures.

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, 2006**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)**

06-2 CONDITION/CONTEXT

The District did not have adequate controls in place to monitor operational sites to ensure transactions recorded at those sites are accurate. The lack of adequate controls resulted in the inconsistent and inaccurate recording of certain transactions in the District's accounting records.

CRITERIA

Monitoring of decentralized and/or operations sites is a key internal control activity which helps ensure the accuracy of the transactions recorded in the District's accounting records and financial statements.

EFFECT

Transactions recorded in the District's accounting records included errors which resulted in inconsistent and inaccurate accounting records. Several audit adjustments were made to correct the errors noted during the audit.

CAUSE

The District has not assigned adequate resources and/or personnel to the monitoring of the District's operational 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 properly report the District's financial activity in the accounting records 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, 2006**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Concl'd)**

06-3 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, 2006**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

We noted no reportable conditions, material weaknesses or instances of noncompliance related to the audit of major federal programs as required to be reported by OMB Circular A-133.

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT  
(NORTHLAND PIONEER COLLEGE)  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2006**

**Status of Federal Award Findings and Questioned Costs**

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

Status: Corrected.