A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Navajo County Community College District

(Northland Pioneer College)

Year Ended June 30, 2011

STATE OF ARIZONA
OFFICE OF THE AUDITOR GENERAL

Debra K. Davenport
Auditor General

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Navajo County Community College District
(Northland Pioneer College)
Single Audit Reporting Package
Year Ended June 30, 2011

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Navajo County Community College District

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Navajo County Community College District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Navajo County Community College District as of June 30, 2011, 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 i through vii 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

December 22, 2011

Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2011

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, 2011. Please read it in conjunction with the financial statements, which immediately follow.

Basic Financial Statements

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

The *Statement of Net Assets* reflects the District's financial position at June 30, 2011. 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, 2011. 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, 2011. 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 used for operating activities to operating loss on the *Statement of Revenues, Expenses, and Changes in Net Assets* described above.

Financial Highlights and Analysis

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

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

Condensed Financial Information

The following is a listing of condensed financial information for the District as of June 30, 2011, and June 30, 2010:

Condensed Statement of Net Assets—Primary Government as of June 30

	2011	2010 (As adjusted*)	% Change
Assets:			
Current assets	$35,836,165	$26,703,627	34%
Noncurrent assets, other than capital assets	822,062	809,928	1%
Capital assets, net	31,586,774	32,314,878	-2%
Total assets	68,245,001	59,828,433	14%
Liabilities:			
Other liabilities	1,430,024	989,254	45%
Long-term liabilities	398,385	311,160	28%
Total liabilities	1,828,409	1,300,414	41%
Net Assets			
Invested in capital assets, net of related debt	31,503,651	32,314,878	-3%
Restricted net assets	717,570	716,192	0%
Unrestricted net assets	34,195,371	25,496,949	34%
Total net assets	$66,416,592	$58,528,019	13%

* The 2010 current assets and noncurrent assets, other than capital assets, were adjusted to reclassify student loans receivable amounts from noncurrent to current assets in accordance with corrected allowance methodologies.

Current assets increased $9.1 million. The increase is primarily related to cash and investments held with the state and county treasurers and local banks, which increased $9.7 million as a result of cost containment and planning initiatives. The increase will be used to help fund future capital needs. The increase was offset by a reduction in inventories of $843,000 and prepaid items of $417,000. The reduction in inventories is related to liquidation of books; the District no longer maintains a physical bookstore but offers an online bookstore option to its students managed by a third-party vendor.

Other liabilities increased $485,000; the increase is primarily related to recognition of deferred revenues of $859,000 associated with early registration for Fall 2011. Several changes such as limited class offerings, late registration fees, release of financial aid awards prior to the start of the semester, and the adoption of an online bookstore have led students to register earlier than prior years.

Total net assets increased $7.9 million due to a net increase from operations. The District has dedicated $9.9 million of unrestricted net assets to support capital needs over the next several years. In the upcoming year, the District plans to use $2.0 million on deferred maintenance and repair of existing buildings and parking lots, and development of a Master Facilities Plan to assess future needs. Another $1.5 million of unrestricted net assets will be used to address upgrades to the enterprise resource planning system, the telephone system, and other network infrastructure. A significant amount of facilities maintenance was deferred in prior years to help manage expenses as state appropriations declined, and state capital appropriations were completely eliminated. While the District plans to use portions of its unrestricted net assets to allow it to provide consistent quality of services to students and communities, regular evaluation of financial resources will continue during the uncertain economic climate.

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

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

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

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

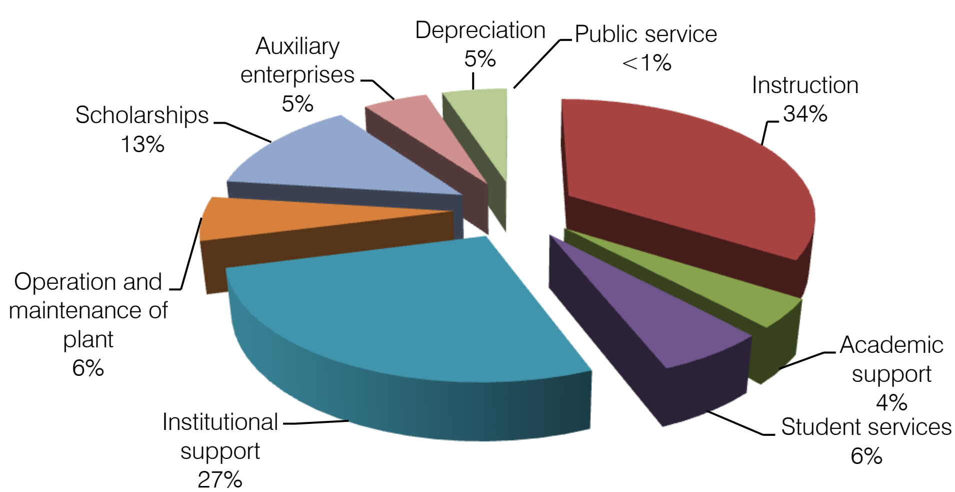
	2011	2010	% Change
Revenues:			
Operating			
Tuition and fees, net	$ 2,319,373	$ 3,062,113	-24%
Government contracts	2,060,376	1,868,359	10%
Private grants and contracts	345,534	450,763	-23%
Bookstore income, net	28,892	701,123	-96%
Other	369,299	297,825	24%
Total operating revenues	5,123,474	6,380,183	-20%
Nonoperating			
Property taxes	11,988,497	11,353,707	6%
State appropriations	10,214,000	10,214,000	0%
Government grants	4,955,825	4,956,184	0%
Share of state sales taxes	386,743	422,737	-9%
Investment earnings	124,907	130,891	-5%
Gain on disposal of capital assets	3,563		
Total nonoperating revenues	27,673,535	27,077,519	2%
Total revenues	32,797,009	33,457,702	-2%
Expenses:			
Operating	24,905,008	25,884,021	-4%
Nonoperating	3,428		
Total expenses	24,908,436	25,884,021	-4%
Increase in net assets	7,888,573	7,573,682	4%
Total net assets, July 1	58,528,019	50,954,337	15%
Total net assets, June 30	$66,416,592	$58,528,019	13%

Operating revenues decreased overall by $1.3 million. Tuition and fees decreased $743,000 related primarily to recognition of deferred revenues of $859,000 associated with early registration. Several changes, such as limited class offerings, late registration fees, release of financial aid awards prior to the start of the semester, and the adoption of an online bookstore, have led students to register earlier than prior years. Government contracts increased $192,000 related primarily to the agreement to provide educational services to Apache County. When the District installed a new wide-area network system, equipment of $215,000 was required for Apache County services. Private grants and contracts decreased $105,000 as three grant projects have concluded. Bookstore income decreased $672,000 due to the District's decision to adopt an online bookstore, managed by a third party, instead of maintaining a physical bookstore. Beginning with the Summer 2010 semester, textbooks are available to students through an online vendor contracted by the District. Textbooks are delivered directly to the student. Students may also purchase textbooks from other online vendors.

Nonoperating revenues increased overall by 2 percent, or $596,000, related primarily to an increase in property taxes. The increase in property taxes was offset by reductions in share of state sales taxes and investment income; reductions in both areas were related to the current weak economic conditions. State appropriations remained unchanged from the prior year; however, state funding continues to be reduced and debated.

	2011	2010 (As adjusted*)	% Change
Operating Expenses			
Educational and general:			
Instruction	$ 8,450,971	$ 9,067,801	-7%
Public service	13,128	14,178	-7%
Academic support	996,556	985,173	1%
Student services	1,532,942	1,693,771	-9%
Institutional support	6,681,808	7,151,218	-7%
Operation and maintenance of plant	1,563,034	1,599,258	-2%
Scholarships	3,128,320	2,666,186	17%
Auxiliary enterprises	1,217,755	1,270,886	-4%
Depreciation	1,320,494	1,435,550	-8%
Total operating expenses	24,905,008	25,884,021	-4%
Total expenses	$24,905,008	$25,884,021	-4%

2011 Operating Expenses by Category



* The 2010 expenses for scholarships and student services were adjusted to reclassify payments made to students for student financial aid and scholarships. These payments were reported as student services in prior years.

Operating expenses decreased overall by 4 percent, or $979,000. The District instituted cost containment initiatives in fiscal year 2009 that were still in place in both fiscal years 2010 and 2011. The initiatives were put in place in response to the state budget cuts and included layoffs; a hiring and wage freeze; and closure and consolidation of facilities. The District is concerned with maintaining comprehensive and quality services to the students and communities in its service area, and for fiscal year 2012, continues to plan appropriately. Scholarships, included in operating expenses, increased 17 percent, or $462,000, related to the District's decision to adopt an online bookstore, managed by a third party. This change significantly reduced the scholarship allowance for books which is netted against scholarship expenses. The scholarship allowances decrease has the effect of increasing scholarship expense. In fiscal year 2011, students began purchasing their books from a third party vendor.

Capital Assets and Debt Administration

Capital assets are defined as those items costing over $5,000 and which have an estimated useful life of more than one year. The District held off major capital acquisitions and construction due to the state of the economy, but has designated $9.9 million of unrestricted net assets to address capital needs over the next several years. The District will be focusing on facilities and information technology needs.

A three-year plan to address maintenance and repair of existing buildings and parking lots is expected to bring facilities up to standards district-wide. These expenses were deferred in prior years to help manage expenses as state appropriations declined and state capital appropriations were eliminated completely. The District will also move ahead with the development of a Master Facilities Plan to properly plan for existing and future facilities. This was initially included in the District's 2008-11 strategic plan, but it was put on hold due to budget constraints.

The District will upgrade its existing enterprise resource planning (ERP) system. The ERP system integrates internal and external management information across all functions of the college—records and registration, financial aid, business office, and accounting. Current customizations to the ERP system have become an obstacle to installing new releases and upgrades. The District will move more towards the standard system and expects to have minimal need for customization. This approach will improve efficiency in all functions of the District managed through the ERP system. In addition, the District has deployed a new voice over network protocol system to replace its aging and failing telephone system, with an expected reduction in maintenance and recurring costs.

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

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

Current Factors Having Probable Future Financial Significance

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

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

While funding from the State was maintained at the same level as the prior year in fiscal year 2011, operating state appropriations to the District have been reduced for fiscal year 2012 by 52 percent. Continued pressure on state appropriations is expected in the future. The State did not fund capital appropriations which was last funded in fiscal year 2008; this source of funding is not expected to return. The District did receive equalization state aid of $6,624,000 in fiscal year 2011, which was funded at the same level as fiscal year 2010 rather than according to the statutory formula; however, future equalization funding is expected to decrease as property values throughout the State decline. Equalization state funding may also be in jeopardy as the funding formulas for higher education in the State are being reevaluated.

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

The District will continue to evaluate its tuition and fee structure and shift financial responsibility for education to students in the form of increased tuition and fees. However, the District is limited in the amount of increases it can implement based on the demographics of its service area. The District's service area covers approximately 21,158 square miles and is one of the poorest, most remote, and least populated in both Arizona and the United States. In-state tuition was increased 8 percent, up $4 from $52 to $56 per credit hour in fiscal year 2011, which has been increased in fiscal year 2012 an additional 7 percent. The District continues to offer one of the lowest tuition rates in the State. A continuing demand for additional services and programs, along with increasing dissatisfaction with class availability and service reductions, must be balanced with anticipated reductions in funding.

Requests for Information

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

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Navajo County Community College District
(Northland Pioneer College)
Statement of Net Assets—Primary Government
June 30, 2011

	Business-Type Activities
Assets	
Current assets:	
Cash and investments	$ 32,593,789
Receivables (net of allowances for uncollectibles):	
Accounts	962,213
Property taxes	685,633
Student loans, current portion	887,840
Inventories	62,282
Prepaid items	644,408
Total current assets	35,836,165
Noncurrent assets:	
Restricted assets:	
Cash and investments	717,570
Property taxes receivable (net of allowances for uncollectibles)	14,184
Student loans receivable (net of allowances for uncollectibles)	90,308
Capital assets, not being depreciated	720,520
Capital assets, being depreciated, net	30,866,254
Total noncurrent assets	32,408,836
Total assets	68,245,001
Liabilities	
Current liabilities:	
Accounts payable	260,086
Deferred revenues	859,043
Accrued payroll and employee benefits	273,695
Deposits held in custody for others	37,200
Current portion of compensated absences payable	236,447
Current portion of capital lease payable	41,561
Total current liabilities	1,708,032
Noncurrent liabilities:	
Compensated absences payable	78,815
Capital lease payable	41,562
Total noncurrent liabilities	120,377
Total liabilities	1,828,409

(Continued)

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Net Assets—Primary Government
June 30, 2011
(Concluded)

	Business-Type Activities
Net Assets	
Invested in capital assets, net of related debt	$ 31,503,651
Restricted:	
Nonexpendable—endowments	12,414
Expendable:	
Capital projects	478,705
Scholarships, grants and contracts	226,451
Unrestricted	34,195,371
Total net assets	$ 66,416,592

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Financial Position—Component Unit
June 30, 2011

	Northland Pioneer College Foundation
Assets	
Cash and cash equivalents	$ 19,891
Restricted cash-savings	88,621
Accounts receivable	1,667
Investments:	
Certificates of deposit	50,060
Real estate	12,000
Prepaid expense	4,869
Utility deposit	1,705
Land and building, net of accumulated depreciation	35,000
Total assets	$ 213,813
Liabilities	
Accounts payable	$ 2,398
Total liabilities	2,398
Net Assets	
Unrestricted	122,794
Temporarily restricted	20,211
Permanently restricted	68,410
Total net assets	211,415
Total liabilities and net assets	$ 213,813

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, 2011

	Business-Type Activities
Operating revenues:	
Tuition and fees, net of scholarship allowances of $1,149,232	$ 2,319,373
Government contracts	2,060,376
Private grants and contracts	345,534
Bookstore income, net of scholarship allowances of $45,288	28,892
Other sales and services	96,066
Other	273,233
Total operating revenues	5,123,474
Operating expenses:	
Educational and general:	
Instruction	8,450,971
Public service	13,128
Academic support	996,556
Student services	1,532,942
Institutional support	6,681,808
Operation and maintenance of plant	1,563,034
Scholarships	3,128,320
Auxiliary enterprises	1,217,755
Depreciation	1,320,494
Total operating expenses	24,905,008
Operating loss	(19,781,534)
Nonoperating revenues (expenses):	
Property taxes	11,988,497
State appropriations	10,214,000
Government grants	4,955,825
Share of state sales taxes	386,743
Investment earnings	124,907
Interest expense on debt	(3,428)
Gain on disposal of capital assets	3,563
Net nonoperating revenues	27,670,107
Increase in net assets	7,888,573
Total net assets, July 1, 2010	58,528,019
Total net assets, June 30, 2011	$ 66,416,592

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Activities—Component Unit
Year Ended June 30, 2011

	Northland Pioneer College Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions	$ 6,074	$ 750	$ 14,735	$ 21,559
In-kind donations	12,525			12,525
Special events revenue, net	1,127			1,127
Interest income	123	51	6	180
Other revenue	545			545
Rental income	99,191			99,191
Loss on sale of investment lots	(1,871)			(1,871)
Total support and revenue	117,714	801	14,741	133,256
Net assets released from restrictions:				
Satisfaction of donor restrictions	2,271	(2,271)		
Total support, revenue, and net assets released from restrictions	119,985	(1,470)	14,741	133,256
Expenses:				
Program services	80,235			80,235
Support services	55,963			55,963
Total expenses	136,198			136,198
Increase (decrease) in net assets	(16,213)	(1,470)	14,741	(2,942)
Net assets, beginning of year	139,007	21,681	53,669	214,357
Net assets, end of year	$ 122,794	$ 20,211	$ 68,410	$ 211,415

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2011

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	$ 2,549,963
Government contracts	2,405,910
Bookstore receipts	28,892
Other receipts	369,299
Payments to suppliers and providers of goods and services	(5,286,726)
Payments to employees	(14,322,822)
Payments to students for scholarships and loans	(3,128,320)
Net cash used for operating activities	(17,383,804)
Cash flows from noncapital financing activities:	
Property taxes	11,893,222
State appropriations	10,214,000
Grants	4,955,825
Share of state sales taxes	386,743
Deposits held in custody for others received	3,619
Deposits held in custody for others disbursed	(4,015)
Net cash provided by noncapital financing activities	27,449,394
Cash flows from capital and related financing activities:	
Property taxes	3,484
Proceeds from sale of capital assets	3,563
Acquisition and construction of capital assets	(467,706)
Principal paid on capital debt	(41,561)
Interest paid on capital debt	(3,428)
Net cash used by capital and related financing activities	(505,648)
Cash flows from investing activities:	
Interest received on investments	124,907
Net cash provided by investing activities	124,907
Net increase in cash and cash equivalents	9,684,849
Cash and cash equivalents, July 1, 2010	23,626,510
Cash and cash equivalents, June 30, 2011	$ 33,311,359

(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, 2011
(Concluded)

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (19,781,534)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,320,494
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(151,165)
Student loans receivable	(477,288)
Deferred revenues	859,043
Compensated absences payable	4,102
Decrease in:	
Inventories	843,178
Prepaid items	417,244
Accounts payable	(381,646)
Accrued payroll and employee benefits	(36,232)
Net cash used for operating activities	$ (17,383,804)
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and investments	$ 32,593,789
Restricted assets:	
Cash and investments	717,570
Total cash and cash equivalents, June 30, 2011	$ 33,311,359

See accompanying notes to financial statements.

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 be used only 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 statement of financial position and activities are included in the District's financial statements as required by generally accepted accounting principles for public colleges and universities. The Foundation has a June 30 year-end.

During the year ended June 30, 2011, the Foundation distributed $9,622 to the District for both restricted and unrestricted purposes. The Foundation's complete financial statements can be obtained from the Northland Pioneer College Foundation, PO Box 610, Holbrook, AZ 86025-0610.

B. Basis of Presentation and Accounting

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

A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy District obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net assets 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 exchange transactions. Accordingly, revenues, such as tuition and bookstore charges, are considered to be operating revenues. Other revenues, such as property taxes, state appropriations and certain government grants, are not generated from exchange transactions and are considered to be nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

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

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

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

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

C. Cash and Investments

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

D. Inventories

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

E. Capital Assets

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

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

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

F. Investment Earnings

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

G. Compensated Absences

Compensated absences payable consists of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 224 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at the end of August are forfeited. 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 the student's behalf. Accordingly, some types of student financial aid, such as Pell grants and scholarships awarded by the District, are considered to be scholarship allowances. These allowances are netted against tuition and fees revenues and bookstore income in the statement of revenues, expenses, and changes in net assets.

Note 2 - Deposits and Investments

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

Deposits—At June 30, 2011, the carrying amount of the District's deposits was $3,003,417, and the bank balance was $3,390,454. The District currently does not have a policy for custodial credit risk.

Investments—The District's investments at June 30, 2011, were as follows:

Investment Type	Amount
State Treasurer's investment pool 5	$13,471,787
County Treasurer's investment pool	16,831,105
Total	$30,302,892

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

Credit risk—The District does not have a formal policy with respect to credit risk. At June 30, 2011, credit risk for the District's investments were as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment pool 5	AAAf/S1+	Standard and Poor's	$13,471,787
County Treasurer's investment pool	Unrated	Not applicable	16,831,105
Total			$30,302,892

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

Interest Rate Risk—The District does not have a formal policy for interest rate risk. At June 30, 2011, the District had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity
State Treasurer's investment pool 5	$13,471,787	0.8 months
County Treasurer's investment pool	16,831,105	31.4 months
Total	$30,302,892	

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

Cash, deposits, and investments:		Statement of Net Assets:	
Cash on hand	$ 5,050	Cash and investments	$32,593,789
Amount of deposits	3,003,417	Restricted assets:	
Amount of investments	30,302,892	Cash and investments	717,570
Total	$33,311,359	Total	$33,311,359

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 709,291			$ 709,291
Construction in progress		$ 11,229		11,229
Total capital assets not being depreciated	709,291	11,229		720,520
Capital assets being depreciated:				
Buildings	32,249,075			32,249,075
Equipment	5,143,946	528,678		5,672,624
Improvements other than buildings	7,149,853			7,149,853
Library books	608,424	52,483	$53,374	607,533
Total capital assets being depreciated	45,151,298	581,161	53,374	45,679,085
Less accumulated depreciation for:				
Buildings	$ 7,570,425	$ 780,130		$ 8,350,555
Equipment	3,726,188	304,561		4,030,749
Improvements other than buildings	1,895,431	185,393		2,080,824
Library books	353,667	50,410	$53,374	350,703
Total accumulated depreciation	13,545,711	1,320,494	53,374	14,812,831
Total capital assets being depreciated, net	31,605,587	(739,333)		30,866,254
Capital assets, net	$32,314,878	$ (728,104)	$	$31,586,774

Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within 1 year
Compensated absences payable	$311,160	$297,214	$293,112	$315,262	$236,447
Capital leases payable		124,684	41,561	83,123	41,561
Total long-term debt	$311,160	$421,898	$334,673	$398,385	$278,008

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

The carrying value of the assets acquired through capital leases was $124,684.

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2011:

Year ending June 30	
2012	$44,989
2013	44,989
Total minimum lease payments	89,978
Less amount representing interest	6,855
Present value of net minimum lease payments	$83,123

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 1 year. The District will be charged for any such assessment in the following year. The District has never been charged such an assessment.

The District also carries commercial insurance for other risks of loss, including workers' compensation, accidental death and dismemberment for students and employees, employee travel, and extended reporting for errors and omissions. Settled claims resulting from these risks have exceeded commercial insurance coverage in 2 of the past 3 fiscal years; the District reached its lifetime, no-fault limit on mold coverage for one campus in 2010. As a result, for the years ended June 30, 2011 and June 30, 2010, the District paid additional expenses of $12,805 and $10,175, respectively. The no-fault mold coverage is limited to $25,000 per campus and covers direct physical loss or damage caused by fungus, wet or dry rot, or bacteria, including the cost of removal and the cost for clearance testing. The limitation is for mold damage not linked to a specific occurrence. Property damage insurance continues to be available for occurrences reported within 30 days of the event.

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

Note 6 - Operating Leases

The District leases land, classroom and office space, information systems equipment, and vehicles under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases were $387,146 for the year ended June 30, 2011. The operating leases have remaining noncancelable terms of 1 to 4 years and provide renewal options.

Of the current rental expenses, $92,275 was paid to the Northland Pioneer College Foundation (Foundation). The nature of the relationship between the District and the Foundation is described in Note 9. The District entered into an operating lease with the Foundation for a building and parking lot. The lease term is February 14, 2006 to February 13, 2015. There is a step-down rental provision of 20 percent effective March 1, 2011, which continues each March 1 thereafter.

The future minimum payments required under the operating leases at June 30, 2011, were as follows:

Year ending June 30	
2012	$220,509
2013	85,013
2014	43,870
2015	13,184
Total minimum lease payments	$362,576

Note 7 - Pension and Other Postemployment Benefits

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

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

Funding policy—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2011, active plan members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent for retirement and 0.25 percent for long-term disability) of the members' annual covered payroll and the District was required by statute to contribute at the actuarially determined rate of 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premium, and 0.25 percent for long-term disability) of the members' annual covered payroll.

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

Year ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2011	$838,641	$ 54,916	$23,254
2010	859,122	67,989	41,171
2009	929,372	111,664	58,158

Note 8 - 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	$14,290,694
Contract services	1,621,476
Communications and utilities	1,232,953
Depreciation	1,320,494
Supplies and other services	3,289,474
Scholarships	3,128,320
Other	21,597
Total	$24,905,008

Note 9 - Discretely Presented Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

Nature of 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, membership dues, and rental income, 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 estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

Financial Statement Presentation—The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows.

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

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

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

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

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

B. Cash

The total cash held by the Foundation at June 30, 2011, is as follows:

Checking	$ 2,213
Money market	17,372
Savings	88,927
	$108,512

C. Investments

Investments consist of certificates of deposits held in financial institutions by the Foundation and real estate comprising several lots of land. As of June 30, 2011, the certificates of deposit totaled $50,060. Real estate totaled $12,000 as of June 30, 2011. 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 deposits earned interest at rates varying from 0.20 percent to 0.40 percent for the year ended June 30, 2011.

D. Endowment Funds

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

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

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

As of June 30, 2011, the endowment funds consisted of temporarily restricted net assets of $10,745 and permanently restricted net assets of $68,410, for a total of $79,155.

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Supplementary Information

Navajo County Community College District
(Northland Pioneer College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
Workforce Investment Act (WIA) Cluster:			
WIA Adult Program, passed through the White Mountain Apache Tribe	17.258	AB171810855A4	$ 80,235
U.S. Small Business Administration			
Small Business Development Centers, passed through Maricopa County Community College District	59.037	1-603001-Z-0104	137,606
U.S. Department of Education			
Adult Education—Basic Grants to States, passed through the Arizona Department of Education	84.002	V002A000003	251,686
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		75,500
Federal Work-Study Program	84.033		54,075
Federal Pell Grant Program	84.063		3,565,565
Academic Competitiveness Grants	84.375		15,642
Total Student Financial Assistance Cluster			3,710,782
Higher Education—Institutional Aid	84.031		61,443
Career and Technical Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	V048A090003, V048A000003	314,973
Leveraging Educational Assistance Partnership, passed through the Arizona Commission for Postsecondary Education	84.069	None	52,111
Tech-Prep Education, passed through the Arizona Department of Education	84.243	V243A000003	82,437
Total U.S. Department of Education			4,473,432
U.S. Department of Health and Human Services			
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925		30,000
Total Expenditures of Federal Awards			$ 4,721,273

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, 2011

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 2011 *Catalog of Federal Domestic Assistance* or from the federal or pass-through grantor.

Note 3 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2011.

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STATE OF ARIZONA

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of
Navajo County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Navajo County Community College District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2011. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Northland Pioneer College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. The financial statements of the Northland Pioneer College Foundation were not audited by the other auditors in accordance with *Government Auditing Standards*. The Northland Pioneer College Foundation did not provide the reported results of the other auditors' testing of internal control over its financial reporting. Consequently, this report does not include our consideration of the other auditors' testing of internal control over financial reporting that is reported on separately by those other auditors.

Internal Control over Financial Reporting

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

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

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A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 11-01 and 11-02 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 11-03 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Questioned Costs as item 11-04.

Navajo County Community College District's responses to the findings identified in our audit are presented on pages 37 through 40. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Debbie Davenport
Auditor General

December 22, 2011

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of
Navajo County Community College District

Compliance

We have audited Navajo County Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in items 11-101 and 11-102 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with the requirements regarding equipment and real property management, and procurement and suspension and debarment that are applicable to its Career and Technical Education—Basic Grants to States program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

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In our opinion, except for the noncompliance described in the preceding paragraph, Navajo County Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 11-101 and 11-102 to be material weaknesses.

Navajo County Community College District's responses to the findings identified in our audit is presented on pages 37 through 40. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Debbie Davenport
Auditor General

December 22, 2011

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

	Yes	No
Internal control over financial reporting:		
Material weaknesses identified?	X	
Significant deficiencies identified?	X	
Noncompliance material to the financial statements noted?		X

Federal Awards

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

Type of auditors' report issued on compliance for major programs: Unqualified for all major programs except for the Career and Technical Education—Basic Grants to States program, which was qualified.

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grants
84.048	Career and Technical Education—Basic Grants to States

Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

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

Other Matters

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

Financial Statement Findings

11-01

The District should strengthen access and change management controls over its information systems

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

Condition and context: The District did not adequately limit logical access to its information systems during the year. Specifically, the District did not ensure that system users were granted appropriate access rights for their job responsibilities or that user rights were removed when employees terminated employment or transferred to another department. In addition, the District did not adequately restrict unlimited system access to only those individuals who needed the access and did not monitor the activities of users with this access. Auditors identified 21 users with unlimited system access and found that this high level of access was unnecessary or inappropriate for 11 of these users. Also, the District maintained user accounts with unlimited access that were not assigned to a specific individual. Finally, the District did not have policies and procedures in place to ensure that all system changes were properly documented, authorized, tested, and reviewed and approved prior to implementation.

Effect: There is an increased risk of theft, manipulation, or misuse of financial, sensitive, or confidential information by unauthorized users or by users who were not properly being monitored. In addition, inadequate change management controls could lead to unauthorized changes to systems and programs and to the manipulation of data they contain. This finding is a material weakness in internal control over financial reporting.

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

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

- Restrict unlimited system access to only those individuals who need that level of access.
- Monitor the activities of employees with unlimited system access.
- Develop a standardized form to document granting or revoking system access and the associated approvals and retain completed authorization forms.
- Perform a comprehensive review of all existing system users to ensure that access is granted to current employees for access rights that are compatible with their job responsibilities.

- Remove access rights of employees who have terminated employment or transferred to another department immediately.
- Require that changes to systems and programs be documented, authorized, tested, reviewed, and approved prior to being put into use.
- Separate the responsibilities for developing and implementing changes from the responsibilities of authorizing, testing, and approving changes. Changes initiated by users should also be approved by users.
- Maintain documentation for testing changes and the results.

11-02
The District should develop and test a disaster recovery plan for its information systems

Criteria: It is critical that the District have an up-to-date contingency plan in place to provide for the continuity of operations and to ensure that data can be recovered in the event of a system or equipment failure or other system interruption.

Condition and context: The District did not have a comprehensive disaster recovery plan for its information systems used to process and store financial and student information that is vital to its daily operations.

Effect: The District risks the ability to recover financial and student information and conduct daily operations in the event of a system or equipment failure or other system interruption. This finding is a material weakness in internal control over financial reporting.

Cause: The District did not dedicate resources to establish and maintain a comprehensive disaster recovery plan.

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

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

11-03

The District needs to improve its policies and procedures for capital assets

Criteria: The District should have policies and procedures for capital assets that are sufficiently detailed to properly control, safeguard, and record capital assets.

Condition and context: The District's policies and procedures were not sufficiently detailed to ensure that capital assets were properly controlled, safeguarded, and recorded. Specifically, the District's capital assets list did not include all of the necessary information for each equipment and machinery item, such as the correct description, a unique identification number, and the physical location; however, auditors were able to locate all items tested. In addition, the policies did not contain the specific capitalization threshold, estimated useful life, and depreciation method for each type of capital asset. Further, the District had not performed a physical inventory in the last 2 years as required for capital assets acquired with federal monies.

Effect: The District reported equipment and machinery valued at approximately $1.6 million; however, the District's capital assets list did not adequately identify equipment and machinery items and included obsolete items. This could increase the risk of loss, theft, or misuse of the District's capital assets. Further, the District's policies requiring a physical inventory at least once every 3 years were not adequate to ensure compliance with federal program requirements which require an inventory to be taken at least once every 2 years. This finding is a significant deficiency in internal control over financial reporting.

Cause: The District's existing policies and procedures were not detailed enough for employees to properly control, safeguard, and record capital assets, as well as comply with federal requirements. In addition, the District did not assign the responsibility for controlling capital assets to an employee.

Recommendation: To help ensure that capital assets are controlled safeguarded, and recorded, and that it complies with federal requirements, the District should:

- Evaluate its existing policies and procedures to ensure that they are sufficiently detailed to address recordkeeping for capital assets, including when to capitalize items, what information to record on the capital assets list, how to depreciate items, and how to dispose of capital assets, including obsolete items.
- Assign an employee to be responsible for controlling capital assets.
- Identify each equipment and machinery item with a unique number, such as a tag or serial number, and physical location.
- Require a physical inventory of capital assets purchased with federal monies at least once every 2 years.

11-04
The District needs to remedy noncompliance with state laws

Criteria: The Arizona State Legislature appropriated monies to the District according to Laws 2007, Ch. 255, §18 and Laws 2008, Ch. 285, §4 to construct a public safety and emergency services training facility that was to be operated and controlled by the District.

Condition and context: During fiscal years 2008 and 2009, the District received $1 million and $500,000, respectively, for the specific purpose of constructing a public safety and emergency services training facility to be operated and controlled by the District. However, the District did not comply with these requirements; instead, it contributed the monies to a not-for-profit corporation which owns, controls, and operates the facility. Based on the agreements between the District and the corporation, the District has no control of the facility or its use, operations, and maintenance. Of the total $1.5 million appropriated by the State to the District, approximately $478,000 remained unspent as of June 30, 2011, and was appropriately restricted for maintenance of the facility.

Effect: The District did not comply with laws requiring the District to operate and control facilities constructed with state appropriations. This finding is an instance of noncompliance.

Cause: According to the District, it was the District's intention to make arrangements with other local governments and local public safety associations that serve local governments to share in the public purpose and benefits of the facility. However, the agreements that ultimately resulted were not structured in such a way to provide the District with the ability to operate and control the facility as required by the appropriations.

Recommendation: The District should review the existing arrangement and agreements with the corporation and consult with its legal counsel in an effort to remedy the legal noncompliance. In addition, the District needs to consider the effect of any changes to the arrangement or agreements with the corporation that may affect the District's financial reporting.

Federal Award Findings and Questioned Costs

11-101
CFDA No.: 84.048 **Career and Technical Education—Basic Grants to States**
U.S. Department of Education
Passed through the Arizona Department of Education
Award Periods: July 1, 2009 through September 30, 2010
July 1, 2010 through September 30, 2011
Award Numbers: V048A090003 and V048A000003
Equipment and real property management
Questioned Cost: Unknown

Criteria: In accordance with 2 Code of Federal Regulations (CFR) §215.34, the District should maintain a capital assets list that includes information, such as the description, identification number, and physical location, of each item meeting the capitalization threshold. In addition, a physical inventory of capital assets acquired with federal monies should be taken and the results reconciled to equipment records at least once every 2 years.

Condition and context: As described in item 11-03, the District's capital assets list did not contain a unique identification number and the location for each capital asset acquired with federal monies. In addition, the District had not performed a physical inventory of these capital assets within the last 2 years.

Effect: The District did not comply with the program's requirements for equipment and real property management. Also, capital assets acquired with federal monies may be exposed to potential loss, theft, or misuse. Auditors were able to determine that the District's capital assets list agreed with the detailed records maintained at the department for the capital assets identified as being acquired with the program's monies, and that the list and records were reasonably complete. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's equipment and real property management requirements. This finding could affect other federal programs for which the equipment and real property management requirements are applicable.

Cause: The District's policies required that a district-wide physical inventory be performed at least once every 3 years; accordingly, the District last completed a physical inventory during fiscal year 2009. However, the policies did not require performing an inventory of capital assets acquired with federal monies more frequently.

Recommendation: The District should establish policies and procedures for performing a physical inventory of capital assets acquired with federal monies at least once every 2 years, reconciling the inventory to its records and capital assets list, and updating its capital assets list to ensure that it contains all of the required information for each item meeting the capitalization threshold.

11-102
CFDA No.: 84.048 **Career and Technical Education—Basic Grants to States**
U.S. Department of Education
Passed through the Arizona Department of Education
Award Periods: July 1, 2009 through September 30, 2010
July 1, 2010 through September 30, 2011
Award Numbers: V048A090003 and V048A000003
Procurement and suspension and debarment

Questioned Cost: None

Criteria: The District should have internal controls to ensure that contracts and subawards of federal monies over $25,000 are not made to an entity that is suspended or debarred from doing business with the federal government in accordance with 34 CFR §74.13.

Condition and context: The District paid 2 contractors over $25,000 each, or a total of $148,000, for goods and services during the year using program monies; however, the District did not verify that the contractors were not suspended or debarred prior to awarding the contracts.

Effect: The District did not comply with the program's requirements for procurement and suspension and debarment. Further, without adequate policies and procedures, the District risks awarding federal monies to entities that may be suspended or debarred. Auditors extended auditing procedures and determined that the contractors were not suspended or debarred; therefore, there were no questioned costs noted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's procurement and suspension and debarment requirements.

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

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

Northland Pioneer College
STRONG MINDS. STRONG COMMUNITIES.

December 20, 2011

Ms. Debbie Davenport, Auditor General
State of Arizona, Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

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

Sincerely,

Blaine Hatch

Blaine Hatch
Vice President for Administrative Services

Navajo County Community College District
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Navajo County Community College District
(Northland Pioneer College)
Corrective Action Plan
Year Ended June 30, 2011

Financial Statement Findings

11-01
The District should strengthen access and change management controls over its information systems

Eric Bishop, Director of Information Services
Anticipated completion date: June 30, 2012

Corrective Action Plan:

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

- Work with our information systems vendor and seek consultation to help find the proper balance of access levels related to job responsibilities and overall system security.
- Work with Division and Department heads to revamp the process of providing access to our systems and how rights will be assigned to specific areas of these systems.
- Solidify our process for removing users from the system upon termination of employment and also verifying access levels of staff members who change roles within the institution.
- Minimize users who have full access to the system and develop a means to monitor the activities of users who have full access permissions.
- Require that an internal user group associated with the use of our ERP system approve any changes made to the system.
- Maintain accurate documentation of all changes to the ERP and other systems.
- Ensure we have up to date policies and procedures related to computing system access.
- Routinely audit user access permissions.
- Work internally and possibly with vendors to conduct a risk analysis of our computing systems.

The District will begin immediately to implement the recommendations.

11-02
The District should develop and test a disaster recovery plan for its information systems

Eric Bishop, Director of Information Services
Anticipated completion date: June 30, 2012

Corrective Action Plan:

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

- Work with vendors to establish a disaster recovery plan and distribute this plan to multiple users both inside and outside of the IS Division.
- Develop a schedule for testing the new disaster recovery plan.
- Continue to backup system data to take and store in an off-site location.
- Continue our efforts to create a fully functional, redundant data center to provide high availability to our systems and associated data.

  The District will begin immediately to implement the recommendations.

11-03
The District needs to improve its policies and procedures for capital assets

Maderia Ellison, Director of Financial Services
Anticipated completion date: June 30, 2012

Corrective Action Plan:

The District is aware of the issues related to capital assets and concurs with the finding and recommendations. However, the District will need to evaluate the feasibility of moving to a two-year physical inventory cycle for all assets other than those funded by federal monies which require a two year physical inventory cycle. The District's current policies and procedures will be revised to enhance its record keeping requirements and ensure capital assets are properly controlled and safeguarded. It will include specific capitalization thresholds and estimated useful lives for each type of capital asset, and the depreciation method used. The District will also evaluate its current staffing levels to ensure capital assets are properly controlled. The District plans to implement the agreed to recommendations in the coming year.

11-04
The District needs to remedy noncompliance with state laws

Blaine Hatch, Vice President for Administrative Services
Anticipated completion date: June 30, 2012

Corrective Action Plan:

The District is aware of the issue related to noncompliance with state laws and concurs with the finding and recommendations. The District will consult with legal counsel and other parties associated with the not-for-profit corporation on the best course of action to ensure the District is compliant with state laws. The District will begin immediately to implement the recommendations.

Navajo County Community College District
(Northland Pioneer College)
Corrective Action Plan
Year Ended June 30, 2011

Federal Award Findings and Questioned Costs

11-101
CFDA No.: 84.048 **Career and Technical Education—Basic Grants to States**
John Bremer, Controller and Ann Hilliard, Carl Perkins Grant Coordinator
Completion Date: June 30, 2012

Corrective Action Plan:

The District has been made aware of the requirements related to capital assets funded by federal monies and concurs with the finding and the recommendation. The District's current policies and procedures will be revised to enhance its record keeping requirements and ensure capital assets are properly controlled and safeguarded. The District will immediately change its policies and procedures for capital assets funded by federal monies to ensure compliance with federal program requirements. Specifically it will perform physical inventory procedures every two years instead of three, will reconcile its inventory records to the physical counts and ensure all the required recording keeping information is properly updated.

11-102
CFDA No.: 84.048 **Career and Technical Education—Basic Grants to States**
John Bremer, Controller and Ann Hilliard, Carl Perkins Grant Coordinator
Completion Date: January 30, 2012

Correction Action Plan:

The District has been made aware of the new procedural requirement related to awarding contracts of federal monies and concurs with the finding and recommendation. The District will immediately revise its purchasing procedures to require all contracts and subawards of $25,000 or more in federal monies are made to parties that have not been suspended or debarred and will retain documentation of this determination.