



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Navajo County Community College District

Northland Pioneer College

Year Ended June 30, 2002



Debra K. Davenport
Auditor General

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Navajo County Community College District
(Northland Pioneer College)
Single Audit Reporting Package
June 30, 2002

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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Navajo County Community College District

We have audited the accompanying basic financial statements of Navajo County Community College District as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Navajo County Community College District as of June 30, 2002, and the changes in financial position and cash flows of the District for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the District adopted the provisions of GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as of June 30, 2002, to implement a new financial reporting model. Also, as described in Note 2, the District increased the capitalization threshold for equipment, which represents a change in the application of an accounting principle.

The Management's Discussion and Analysis on pages i through iv 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 supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport
Auditor General

August 11, 2004

Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
June 30, 2002

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, 2002. Please read it in conjunction with the financial statements, which immediately follow.

Basic Financial Statements

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

The *Statement of Net Assets* reflects the financial position of the District at June 30, 2002. 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, 2002. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net asset 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, 2002. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the *Statement of Net Assets* described above. In addition, this statement reconciles cash flows from operating activities to operating loss on the *Statement of Revenues, Expenses and Changes in Net Assets* described above.

Financial Highlights and Analysis

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

The District has elected to not restate prior periods for purposes of providing comparative data. However, in future years, when prior-period information is available, a comparative analysis will be presented.

Navajo County Community College District
(Northland Pioneer College)
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June 30, 2002

The condensed financial information below highlights the main categories of the *Statement of Net Assets*. Assets and liabilities are distinguished as either current or noncurrent. Current liabilities are obligations that are intended for liquidation or payment within the next fiscal year. Current assets are resources available to meet the District's operating needs, including current liabilities. 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

Condensed Statement of Net Assets as of June 30, 2002	
Assets:	
Current assets	\$12,236,333
Noncurrent assets, other than capital assets	119,916
Capital assets, net	<u>24,971,290</u>
Total assets	<u>\$37,327,539</u>
Liabilities:	
Current liabilities	\$ 2,462,344
Noncurrent liabilities	<u>9,976,434</u>
Total liabilities	<u>\$12,438,778</u>
Net Assets:	
Invested in capital assets, net of related debt	\$13,846,290
Restricted net assets	4,518,166
Unrestricted net assets	<u>6,524,305</u>
Total net assets	<u>\$24,888,761</u>

The condensed financial information below highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Assets*. Generally, revenues generated by the District for instruction and public service are considered operating revenues. Other revenues not generated from operations, such as state appropriations and property taxes, are considered nonoperating revenues. In compliance with 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.

Navajo County Community College District
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Depreciation expense is recorded for the first time this fiscal year in accordance with the new reporting model. The construction and acquisition of capital assets, although budgeted and tracked as expenditures in the accounting system, are not reflected as expenses in these statements. Such transactions are instead capitalized and reported as assets, with the systematic depreciation of the costs expensed over the useful lives of the assets constructed or acquired. The District shows an operating loss because the two largest revenue sources, property taxes and state appropriations, are considered nonoperating revenues. Please refer to the Summary of Significant Accounting Policies (Note 1), which directly follows the presentation of the basic financial statements, for a description of the differences between operating and nonoperating revenues.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2002	
Revenues:	
Operating	
Tuition and fees	\$ 1,988,767
Government grants and contracts	3,531,127
Other	988,367
Nonoperating	
Property taxes	7,721,034
State appropriations	5,463,100
Investment income	347,415
Share of state sales taxes	<u>1,402,897</u>
Total revenues	<u>21,442,707</u>
Expenses:	
Operating	
	18,969,750
Nonoperating	
	<u>643,862</u>
Total expenses	<u>19,613,612</u>
Income before other revenues	1,829,095
Capital appropriations	<u>408,800</u>
Increase in net assets	2,237,895
Total net assets, July 1, 2001, as restated	<u>22,650,866</u>
Total net assets, June 30, 2002	<u>\$24,888,761</u>

Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
June 30, 2002

Capital Assets and Debt Administration

The District regularly approves a Capital Project Development Plan. The plan describes new construction and renovation projects. During the fiscal year, construction of a new classroom facility that houses general and health sciences was completed on the Little Colorado Campus in Winslow, Arizona. Construction of a new classroom facility was also completed in Whiteriver, Arizona. This facility represents the first college-owned capital asset constructed on the Fort Apache reservation. Two major renovation projects were completed on the White Mountain Campus in Show Low, Arizona. Funding for these projects was derived primarily from property taxes and capital state aid.

For moveable fixed assets (equipment) a new capitalization minimum was established as of July 1, 2002, raising the minimum from \$1,000 to \$5,000. This change resulted in a write off of \$3,804,380. As mentioned previously, equipment and all other capital assets, except land and construction in progress, are reported net of accumulated depreciation for the first time this year in accordance with the new reporting standards issued by GASB. This has the effect of reducing total capital assets in the financial statements. Depreciation expense totaled \$805,202 for the year, and is now shown as an operating expense on the *Statement of Revenues, Expenses, and Changes in Net Assets*.

At June 30, 2002, the District had two debt issues outstanding, one general obligation bond originally issued for \$15,600,000 with \$9,745,000 outstanding that is funded from secondary property taxes, and one certificate of participation originally issued for \$2,410,000 with \$1,380,000 outstanding that is funded primarily from tuition and fees. No additional long-term debt was issued during the fiscal year. Additional information on the District's long-term debt can be found in Note 5 to the basic financial statements.

Current Factors Having Probable Future Financial Significance

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

Requests for Information

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

Navajo County Community College District
(Northland Pioneer College)
Statement of Net Assets
June 30, 2002

Assets

Current assets:	
Cash and cash equivalents	\$ 314,659
Investments	9,880,503
Receivables (net of allowances for uncollectibles)	
Accounts	52,034
Property taxes	361,774
Government grants and contracts	337,051
Student loans	686,137
Inventories	603,681
Prepaid items	494
Total current assets	<u>12,236,333</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	10,500
Property taxes receivable	109,416
Capital assets, not being depreciated	2,709,419
Capital assets, being depreciated, net	<u>22,261,871</u>
Total noncurrent assets	<u>25,091,206</u>
Total assets	<u>37,327,539</u>

Liabilities

Current liabilities:	
Accounts payable	652,617
Accrued payroll and employee benefits	358,056
Deposits held in custody for others	24,433
Deferred revenues	34,765
Current portion of compensated absences payable	222,473
Current portion of long-term debt	<u>1,170,000</u>
Total current liabilities	<u>2,462,344</u>
Noncurrent liabilities:	
Compensated absences payable	21,434
Long-term debt	<u>9,955,000</u>
Total noncurrent liabilities	<u>9,976,434</u>
Total liabilities	<u>12,438,778</u>

Net Assets

Invested in capital assets, net of related debt	13,846,290
Restricted:	
Nonexpendable—endowments	10,500
Expendable:	
Scholarships	30,413
Grants and contracts	132,139
Capital projects	4,345,114
Unrestricted	<u>6,524,305</u>
Total net assets	<u>\$ 24,888,761</u>

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2002

Operating revenues:	
Tuition and fees (net of scholarship allowances of \$449,987)	\$ 1,988,767
Government grants and contracts	3,531,127
Private grants and contracts	206,633
Bookstore income (net of scholarship allowances of \$224,164)	601,457
Dormitory rentals and fees	45,679
Other sales and services	37,014
Other	<u>97,584</u>
Total operating revenues	<u>6,508,261</u>
Operating expenses:	
Educational and general:	
Instruction	6,329,425
Public service	68,106
Academic support	689,971
Student services	3,147,567
Institutional support	4,905,884
Operation and maintenance of plant	1,310,687
Scholarships	599,527
Auxiliary enterprises	1,113,381
Depreciation	<u>805,202</u>
Total operating expenses	<u>18,969,750</u>
Operating loss	<u>(12,461,489)</u>
Nonoperating revenues (expenses):	
Property taxes	7,721,034
State appropriations	5,463,100
Share of state sales taxes	1,402,897
Investment income	347,415
Interest expense on debt	<u>(643,862)</u>
Total nonoperating revenues	<u>14,290,584</u>
Income before other revenues, expenses, gains, or losses	<u>1,829,095</u>
Capital appropriations	408,800
Increase in net assets	<u>2,237,895</u>
Total net assets, July 1, 2001, as restated	<u>22,650,866</u>
Total net assets, June 30, 2002	<u>\$ 24,888,761</u>

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Cash Flows
Year Ended June 30, 2002

Cash flows from operating activities:	
Tuition and fees	\$ 1,954,439
Grants and contracts	3,710,098
Bookstore receipts	573,392
Dormitory rentals and fees	45,679
Other receipts	135,043
Payments to suppliers and providers of goods and services	(5,394,759)
Payments to employees	(11,310,411)
Payments for scholarships	(1,384,887)
Net cash used for operating activities	<u>(11,671,406)</u>
Cash flows from noncapital financing activities:	
Property taxes	6,148,195
State appropriations	5,463,100
Share of state sales taxes	402,897
Deposits held in custody for others received	45,571
Deposits held in custody for others disbursed	(48,730)
Net cash provided by noncapital financing activities	<u>12,011,033</u>
Cash flows from capital and related financing activities:	
Property taxes	1,483,135
Capital appropriations	408,800
Share of state sales taxes	1,000,000
Principal paid on capital debt	(1,115,000)
Interest paid on capital debt	(643,862)
Payments made to contractors	(2,307,814)
Purchases of capital assets	(388,606)
Net cash used for capital and related financing activities	<u>(1,563,347)</u>
Cash flows from investing activities:	
Interest received on investments	<u>347,415</u>
Net cash provided by investing activities	<u>347,415</u>
Net increase in cash and cash equivalents	(876,305)
Cash and cash equivalents, July 1, 2001	<u>11,081,967</u>
Cash and cash equivalents, June 30, 2002	<u>\$ 10,205,662</u>

(Continued)

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Statement of Cash Flows
Year Ended June 30, 2002
(Continued)

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (12,461,489)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	805,202
Changes in assets and liabilities:	
Increase in:	
Government grants and contracts receivable	(27,662)
Student loans receivable	(84,406)
Inventories	(426,334)
Accounts payable	243,455
Accrued payroll and employee benefits	224,583
Deferred revenues	22,013
Compensated absences payable	32,787
Decrease in:	
Accounts receivable	<u>445</u>
Net cash used for operating activities	<u>\$ (11,671,406)</u>
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and cash equivalents	\$ 314,659
Investments	9,880,503
Restricted assets:	
Cash and cash equivalents	<u>10,500</u>
Total cash and cash equivalents, June 30, 2002	<u>\$ 10,205,662</u>

See accompanying notes to financial statements.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2002

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Navajo County Community College District conform to generally accepted accounting principles applicable to public institutions engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB). During the year ended June 30, 2002, the District implemented GASB Statement No. 35, which prescribes a new reporting model for public colleges within the reporting guidelines of GASB Statement No. 34, as amended by GASB Statement No. 37. The District also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

A. Reporting Entity

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity.

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

B. Basis of Presentation and Accounting

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

A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy District obligations. Invested in capital assets net of related debt represents the net value of capital assets less the debt incurred to acquire or construct the asset. 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.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2002

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. Generally, revenues generated by the District for instruction and public service are considered to be operating revenues. Other revenues used for instruction and public service, such as property taxes and state appropriations, are not generated from operations and are considered to be nonoperating revenues.

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

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

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

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

C. Cash and Investments

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

D. Inventories

The bookstore inventory is 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. The District capitalizes all library books.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2002

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		
Land improvements	5,000		
Buildings	5,000	straight-line	10 – 40 years
Equipment	5,000	straight-line	5 – 10 years
Library books	Not applicable	straight-line	10 years

F. Investment Income

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

G. Compensated Absences

Compensated absences consist 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 behalf of the student. Accordingly, some types of student financial aid such as Pell grants and scholarships awarded by the District are considered to be scholarship allowances. These allowances are netted against tuition and fees revenues in the statement of revenues, expenses, and changes in net assets.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2002

Note 2 - Beginning Balances Restated

As a result of recording accumulated depreciation on capital assets in implementing GASB Statement No. 35, recording cumulative adjustments for unrecorded acquisitions and disposals of capital assets in prior fiscal years, and a change in the capitalization threshold from \$1,000 to \$5,000, the District's aggregate fund balances reported as of June 30, 2001, have been restated as beginning net assets as follows:

Fund balances as of June 30, 2001, as previously reported	\$35,462,394
Cumulative adjustment for unrecorded acquisitions	2,315,582
Cumulative adjustment for unrecorded disposals	(6,179,578)
Accumulated depreciation as of June 30, 2001	(5,143,152)
Change in capitalization threshold	<u>(3,804,380)</u>
Beginning net assets, as restated	<u>\$22,650,866</u>

Note 3 - Deposits and Investments

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

Deposits—At June 30, 2002, the carrying amount of the District's deposits was \$316,166, and the bank balance was \$2,138,348. Of the bank balance, \$214,358 was covered by federal depository insurance or by collateral held by the District or its agent in the District's name; \$1,897,357 was covered by collateral held by the pledging financial institution's trust department or agent in the District's name; and \$26,633 was uninsured and uncollateralized.

Investments—At June 30, 2002, the District's investments consisted of the following:

	Fair Value
Cash and investments held by the County Treasurer	\$1,976,520
Investment in State Treasurer's investment pool	<u>7,903,983</u>
Total	<u>\$9,880,503</u>

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

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2002

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

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

Cash and investments:		Statement of Net Assets:	
Cash on hand	\$ 8,993	Cash and cash equivalents	\$ 314,659
Carrying amount of deposits	316,166	Current investments	9,880,503
Reported amount of investments	<u>9,880,503</u>	Restricted assets:	
Total	<u>\$10,205,662</u>	Cash and cash equivalents	<u>10,500</u>
		Total	<u>\$10,205,662</u>

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows:

	Balance July 1, 2001, as restated	Increases	Decreases	Balance June 30, 2002
Capital assets not being depreciated:				
Land	\$ 609,291	\$ 200,000		\$ 809,291
Construction in progress (estimated cost to complete \$5,304,113)	<u>5,488,497</u>	<u>1,632,168</u>	<u>\$5,220,537</u>	<u>1,900,128</u>
Total capital assets not being depreciated	<u>6,097,788</u>	<u>1,832,168</u>	<u>5,220,537</u>	<u>2,709,419</u>
Capital assets being depreciated:				
Buildings	16,494,037	4,719,410	612,937	20,600,510
Equipment	2,279,452	146,742		2,426,194
Improvements other than buildings	3,579,341	1,114,064		4,693,405
Library books	<u>439,449</u>	<u>50,667</u>		<u>490,116</u>
Total capital assets being depreciated	<u>22,792,279</u>	<u>6,030,883</u>	<u>612,937</u>	<u>28,210,225</u>
Less accumulated depreciation for:				
Buildings	2,706,960	481,389		3,188,349
Equipment	1,584,702	193,635		1,778,337
Improvements other than buildings	651,322	94,460		745,782
Library books	<u>200,168</u>	<u>35,718</u>		<u>235,886</u>
Total accumulated depreciation	<u>5,143,152</u>	<u>805,202</u>		<u>5,948,354</u>
Total capital assets being depreciated, net	<u>17,649,127</u>	<u>5,225,681</u>	<u>612,937</u>	<u>22,261,871</u>
Capital assets, net	<u>\$23,746,915</u>	<u>\$7,057,849</u>	<u>\$5,833,474</u>	<u>\$24,971,290</u>

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2002

During the fiscal year ended June 30, 2002, the District reclassified \$612,937 of improvements previously recorded as Buildings as Improvements other than buildings.

Note 5 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Due within 1 year
Compensated absences payable	<u>\$ 211,120</u>	<u>\$224,907</u>	<u>\$ 192,120</u>	<u>\$ 243,907</u>	<u>\$ 222,473</u>
General obligation bonds	<u>\$10,705,000</u>		<u>\$ 960,000</u>	<u>\$ 9,745,000</u>	<u>\$1,005,000</u>
Certificates of participation payable	<u>1,535,000</u>		<u>155,000</u>	<u>1,380,000</u>	<u>165,000</u>
Total long-term debt	<u>\$12,240,000</u>		<u>\$1,115,000</u>	<u>\$11,125,000</u>	<u>\$1,170,000</u>

Bonds—In July 1995, the District issued \$15,600,000 of general obligation bonds, with an average interest rate of 5.36 percent. The proceeds were used to construct permanent educational facilities, finance various telecommunications equipment and improvements to other existing equipment, and pay costs relating to the issuance of the bonds. The District repays general obligation bonds from voter-approved property taxes. The bonds maturing on or before July 1, 2003, are not subject to redemption prior to maturity. The bonds maturing on or after July 1, 2004, are subject to redemption prior to maturity.

Bonds outstanding at June 30, 2002, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
General obligation bonds, Series 1995	\$15,600,000	2003 - 10	5.0% - 5.4%	\$9,745,000

The following schedule details debt service requirements to maturity for the District's bonds payable at June 30, 2002:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2003	\$1,005,000	\$ 499,675
2004	1,060,000	449,425
2005	1,115,000	396,425
2006	1,175,000	339,560
2007	1,240,000	278,460
2008-10	<u>4,150,000</u>	<u>427,740</u>
Total	<u>\$9,745,000</u>	<u>\$2,391,285</u>

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2002

Certificates of participation—In April 1994, the District issued \$2,410,000 in certificates of participation with an average interest rate of 6.17 percent. Of the total proceeds, \$1,500,000 was used to construct a classroom building in Show Low, Arizona, and the remaining \$910,000 was obligated to advance refund outstanding series 1990 revenue bonds by placing it in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2002, \$695,000 of defeased bonds are outstanding.

The certificates are generally callable with interest payable semiannually.

Certificates outstanding at June 30, 2002, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Certificates of participation, Series 1994	\$2,410,000	2003 - 09	6.00% - 6.55%	\$1,380,000

The following schedule details debt service requirements to maturity for the District's certificates of participation payable at June 30, 2002:

Year Ending June 30,	Principal	Interest
2003	\$ 165,000	\$ 87,042
2004	175,000	77,142
2005	180,000	66,468
2006	195,000	55,308
2007	210,000	43,022
2008-09	<u>455,000</u>	<u>37,279</u>
Total	<u>\$1,380,000</u>	<u>\$366,261</u>

Note 6 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2002

Note 7 - Retirement Plan

Plan descriptions—The District contributes to a cost-sharing, multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

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

Funding policy—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2002, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2002, 2001, and 2000, were \$172,244, \$175,974, and \$164,910, respectively, which were equal to the required contributions for the year.

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. The operating expenses can also be classified into the following:

Personal services	\$11,567,781
Contract services	2,343,522
Supplies and other services	2,153,720
Communications and utilities	1,162,031
Scholarships	599,527
Depreciation	805,202
Other	<u>337,967</u>
Total	<u>\$18,969,750</u>

Supplementary Information

Navajo County Community College District
(Northland Pioneer College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002

Federal Grantor Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
Passed through White Mountain Apache Tribe Workforce Investment Act	17.255	B51605008155	\$ <u>51,710</u>
U.S. Small Business Administration			
Passed through Maricopa County Community College District Small Business Development Center	59.037	00-7620-0003-08, 01-7602-003-9	<u>75,985</u>
U.S. Department of Education			
Direct grants			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		53,057
Federal Work-Study Program	84.033		141,875
Federal Pell Grant Program	84.063		<u>1,644,120</u>
Total Student Financial Assistance Cluster			<u>1,839,052</u>
Higher Education—Institutional Aid	84.031		<u>278,996</u>
Fund for the Improvement of Postsecondary Education Passed through the University of Arizona	84.116		96,933
Fund for the Improvement of Postsecondary Education	84.116	V399268	<u>3,372</u>
Total Fund for the Improvement of Postsecondary Education			<u>100,305</u>
Passed through the Arizona Department of Education			
Adult Education—State Grant Program	84.002	02FAEABE-270 595-02A	176,466
Vocational Education—Basic Grants to States	84.048	30106, 30206	247,735
Tech-Prep Education	84.243	10206	99,631
Passed through Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	200PE175	30,821
Total U.S Department of Education			<u>2,773,006</u>
Total Expenditures of Federal Awards			<u>\$2,900,701</u>

See accompanying notes to schedule.

Navajo County Community College District
(Northland Pioneer College)
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002

Note 1 - Basis of Presentation

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

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

The program titles and CFDA numbers were obtained from the 2002 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2002.



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of 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 basic financial statements of Navajo County Community College District as of and for the year ended June 30, 2002, and have issued our report thereon dated August 11, 2004, which was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 35 and due to a change in the capitalization threshold for capital assets. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-01 through 02-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 02-01 to be a material weakness. We also noted other matters involving internal control over financial reporting that we will report to the District's management in a separate letter.

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

Debbie Davenport
Auditor General

August 11, 2004



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133

Members of the Arizona State Legislature

The Governing Board of
Navajo County Community College District

Compliance

We have audited the compliance of Navajo County Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Navajo County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

Debbie Davenport
Auditor General

August 11, 2004

Navajo County Community College District
 (Northland Pioneer College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2002

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	<u>Unqualified</u>	
	Yes	No
Material weakness identified in internal control over financial reporting?	<u>X</u>	<u> </u>
Reportable condition identified not considered to be a material weakness?	<u>X</u>	<u> </u>
Noncompliance material to the financial statements noted?	<u> </u>	<u>X</u>

Federal Awards

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

Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u> </u>	<u>X</u>

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.007	Student Financial Assistance Cluster
84.033	Federal Supplemental Educational Opportunity Grants
84.063	Federal Work-Study Program
	Federal Pell Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<u> </u> <u>X</u>

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported In accordance with Circular A-133 (section .315[b])?	<u> </u> <u>X</u>
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Navajo County Community College District
(Northland Pioneer College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Financial Statement Findings

02-01

The District controller performed incompatible cash-related duties

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

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

02-02

The District's information system lacked adequate information technology controls

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

Access and physical security controls

- Did not separate operations and programming duties (two programmers had access to all information system resources).
- Lacked written procedures for the physical security of computer equipment and for computer-related emergencies.
- Did not require users to change their passwords on a periodic basis.

Backup and recovery controls

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

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

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



Northland Pioneer College

28 September 2004

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

Dear Ms. Davenport,

The following is Navajo County Community College District's response to the financial statement findings for the fiscal year ended June 30, 2002.

The District controller performed incompatible cash-related duties.

Several mitigating controls are in place to ensure that the combining of cash-handling and record keeping functions does not create a potential loss to the District.

- Bank transfers require the participation of two individuals.
- A check log is maintained and reviewed independently of the controller.
- The business office manager reviews all journal entries prepared by the controller.
- An administrator reviews all monthly bank reconciliations prepared by the controller.

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

The District's information system lacked adequate information technology controls.

Procedures in the areas of physical security controls, program change controls, database controls and backup/recovery controls have been implemented. A procedure manual that includes each of the following controls is being updated and will be maintained.

- Administrative review controls to address the inability to completely separate operations and programming duties.
- Physical security of computer equipment, including computer-related emergencies.

- Disaster recovery plan for processing critical jobs, including a mirrored database in a separate physical location and an HDR (High Availability Data Replication) system.
- The use of a fire-safe cabinet for backup tapes.
- Database logging, database audit functions and software revision control.

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

Implementation of the new reporting model as outlined by the Governmental Accounting Standards Board (GASB) Statement No. 35 required a significant change in the preparation and presentation of the financial statements. The Office of the Auditor General worked closely with the District to ensure compliance with the new guidelines. The District values the professional role the audit staff performed in this transitional period.

Sincerely,

V. Blaine Hatch
Vice President for Administrative Services