

**Navajo County
Community College District
(Northland Pioneer College)
Single Audit Reporting Package**

Year ended June 30, 2010

Table of Contents

	<u>Page</u>
Financial Section	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets - Primary Government.....	10
Statement of Financial Position - Component Unit	11
Statement of Revenues, Expenses, and Changes in Net Assets – Primary Government	12
Statement of Activities – Component Unit.....	13
Statement of Cash Flows – Primary Government.....	14
Notes to Financial Statements.....	16
Supplementary Information:	
Schedule of Expenditures of Federal Awards.....	29
Notes to Schedule of Expenditures of Federal Awards	30
Single Audit Section	
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 <i>Government Auditing Standards</i>	31
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	33
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results.....	35
Financial Statement Findings.....	36
Federal Award Findings and Questioned Costs	36
Summary Schedule of Prior Audit Findings.....	37



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INDEPENDENT AUDITORS' REPORT

The Auditor General of the State of Arizona

The Governing Board of
Navajo County Community College District

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Navajo County Community College District (District), as of and for the year ended June 30, 2010, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2010, on our consideration of the Navajo County Community College District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Heinfeld, Meech & Co., P.C.

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

December 5, 2010

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2010**

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, 2010. 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 financial position of the District at June 30, 2010. 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, 2010. 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, 2010. 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 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

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2010**

payable, 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, 2010 and 2009:

Condensed Statement of Net Assets - Primary Government			
	June 30, 2010	June 30, 2009	% Change
Assets:			
Current assets	\$ 26,368,745	\$ 17,193,921	53%
Noncurrent assets, other than capital assets	1,144,810	1,842,680	-38%
Capital assets, net	32,314,878	33,252,059	-3%
Total assets	59,828,433	52,288,660	14%
Liabilities:			
Other liabilities	989,254	995,390	-1%
Long-term liabilities	311,160	338,933	-8%
Total liabilities	1,300,414	1,334,323	-3%
Net Assets:			
Invested in capital assets, net of related debt	32,314,878	33,252,059	-3%
Restricted net assets	716,192	750,289	-5%
Unrestricted net assets	25,496,949	16,951,989	50%
Total net assets	\$ 58,528,019	\$ 50,954,337	14%

Current assets increased \$9.2 million. The increase is primarily related to cash/investments held with local banks and the state and county treasurer, which increased \$10.6 million. A reduction of \$1.3 million in net accounts receivables, which returned to normal levels after a State Fiscal Stabilization Fund receivable in 2009, and reduction in inventories of \$500,000 provided most of the offset.

Noncurrent assets, other than capital assets, decreased \$700,000 primarily due to reductions in both student and third party accounts receivables, which dropped from \$1 million to \$400,000. Restricted investments and secondary property taxes receivable also decreased.

Unrestricted net assets increased \$8.5 million due to a net increase from operations of the College. The increase during a period of revenue reductions occurred as a result of system-wide expenditure cuts. The increase in unrestricted net assets will allow the College to continue providing quality services to students and communities as the funding climate remains uncertain.

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2010**

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), which directly follows the presentation of the basic financial statements, for a description of the differences between operating and nonoperating revenues.

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2010**

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

	2010	2009	% Change
Revenues:			
<i>Operating</i>			
Tuition and fees (net of scholarship allowance)	\$ 3,062,113	\$ 2,824,047	8%
Government contracts	1,868,359	2,058,901	-9%
Private grants and contracts	450,763	529,310	-15%
Bookstore income (net of scholarship allowance)	701,123	803,661	-13%
Other	297,825	247,370	20%
<i>Total operating revenues</i>	6,380,183	6,463,289	-1%
<i>Nonoperating</i>			
Property taxes	11,353,707	12,321,619	-8%
State appropriations	10,214,000	9,807,911	4%
Government grants	4,956,184	5,083,645	-3%
Share of state sales taxes	422,737	453,912	-7%
Investment income	130,891	257,027	-49%
<i>Total nonoperating revenues</i>	27,077,519	27,924,114	-3%
Total revenues	33,457,702	34,387,403	-3%
Expenses:			
<i>Operating</i>	25,884,021	28,343,785	-9%
<i>Nonoperating</i>	-	67,163	-100%
Total expenses	25,884,021	28,410,948	-9%
Income before other revenues, expenses, gains, or losses	7,573,682	5,976,455	27%
Increase in net assets	7,573,682	5,976,455	27%
Total net assets, July 1	50,954,337	44,977,882	13%
Total net assets, June 30	\$ 58,528,019	\$ 50,954,337	15%

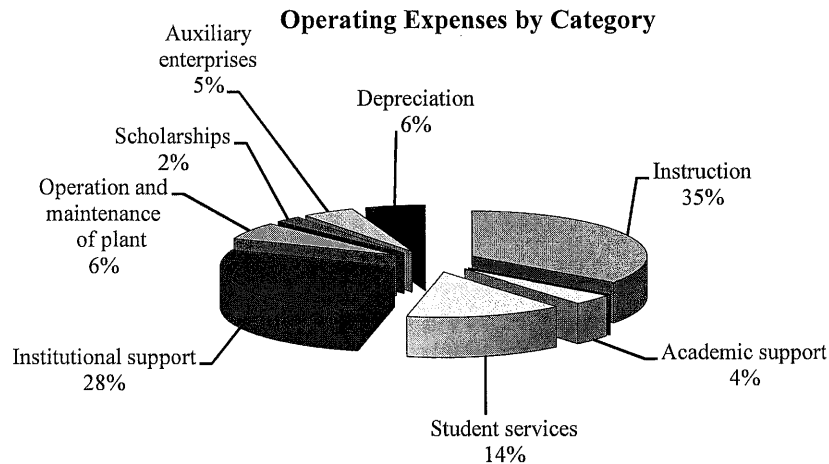
Operating revenues remained relatively stable with only a 1% decrease, or \$83,000, from the prior year. Decreases in government and private contracts were nearly offset by increases in tuition and fees. Government contracts decreased primarily as a result of lower Northern Arizona Vocational Institute of Technology (NAVIT) enrollment. While private scholarships increased 18 percent, private grants decreased nearly \$132,000. Bookstore gross income was nearly unchanged, however increases in book scholarship awards increased for a net reduction in revenue.

Nonoperating revenues decreased 3 percent, or nearly \$850,000, from the prior year. Reductions occurred in nearly all revenue categories. The decrease in property taxes revenues was anticipated as the secondary property tax to fund repayment of general obligation bonds was retired. Government grants was down \$127,000 due to decreased funding from the American Recovery and Reinvestment Act of 2009 (Recovery Act). The funding from the Recovery Act

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2010**

was distributed through the State Fiscal Stabilization Fund (SFSF) – State Grants, Recovery Act (Education Stabilization Fund), and diminished \$880,000 from the prior year. Other federal and state grants were down \$620,000. The reduction in government grant funding was offset by a \$1.4 million increase in Pell awards to students. Investment income continued to decrease as a result of low interest rates. The singular exception to revenue downturn was an increase in State equalization funding as the State budget authorized adherence to the statutory formula. Even with an 8.5 percent cut in State operating aid and the complete elimination of State capital aid, the net increase in state appropriations totaled approximately \$400,000.

	2010	2009	% Change
Operating Expenses			
Educational and general:			
Instruction	\$ 9,067,801	\$ 10,565,902	-14%
Public service	14,178	14,126	0%
Academic support	985,173	785,099	25%
Student services	3,750,620	3,364,710	11%
Institutional support	7,151,218	7,814,683	-8%
Operation and maintenance of plant	1,599,258	2,037,490	-22%
Scholarships	609,337	980,151	-38%
Auxiliary enterprises	1,270,886	1,547,548	-18%
Depreciation	1,435,550	1,234,076	16%
Total operating expenses	<u>25,884,021</u>	<u>28,343,785</u>	-9%
Nonoperating Expenses			
Interest expense on debt	-	67,163	-100%
Total nonoperating expenses	<u>-</u>	<u>67,163</u>	-100%
Total Expenses	<u>\$ 25,884,021</u>	<u>\$ 28,410,948</u>	-9%



**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2010**

Operating expenses were reduced by a substantial amount, down 9% or \$2.5 million. The District instituted cost containment initiatives in FY09 in response to the state budget cuts. Additional cost containment initiatives were added in FY10, including layoffs, a hiring and wage freeze, closure and consolidation of facilities. As all areas of the District have been impacted, the District is making every effort to maintain comprehensive and quality services to the students and communities in the service area.

Nonoperating expenses were eliminated as general obligation bonds and certificates of participation were retired.

Capital Assets and Debt Administration

Capital assets are defined as those items costing over \$5,000 and which have a normal useful life of more than one year. Implementation of the Master Technology Plan continues and will incorporate additional projects identified as Presidential Initiatives, including dedication of significant resources to sustaining technology and implementing web conferencing for delivery of coursework. While previous strategic planning documents called for the development of a Master Facilities Plan, this concept has been eliminated due to ongoing budget constraints and zero state capital aid. The District will continue to focus on maintenance and repair of existing facilities and related infrastructure. Additional information on the District's capital assets can be found in Note 3 to the basic financial statements.

The District currently has no long-term debt and does not anticipate acquiring new debt. General obligation bonds issued in 2003 and certificates of participation issued in 1994 have been fully retired.

Current Factors Having Probable Future Financial Significance

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

Property taxes continue to be levied at the maximum rate allowed by statute; however, with the downturn in the economy collection of assessed property taxes may become more difficult.

Funding from the state continues to decrease and the District expects a precipitous drop in state funding in the future. In FY10, operating state aid decreased an additional 8.5% and capital state aid was not funded again. The District did qualify for equalization aid of \$6,624,000 in FY10, which was funded according to the statutory formula; however, future equalization funding is in jeopardy as the funding formulas for higher education in the state is reevaluated.

Program funding from external sources such as federal and local grants and contracts, along with community and business partnerships will become more important to the District. The District has been competitive in receiving Title III grants from the U.S. Department of Education and has been awarded an Equitable Access to Gainful Learning Experiences (EAGLE) grant for the next five years totaling \$1.9 million. The District is pursuing additional grant and partnership

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2010**

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 of both Arizona and the United States. In-state tuition was increased 8%, or \$4, to \$52 per credit hour. 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.

National and state reform initiatives will demand greater accountability and resources needed to provide required information. Concern for the future fiscal health of the District prompted the addition of a new Board financial condition policy setting budget and cash management guidelines.

The District's Nursing Program achieved initial accreditation from the National League for Nursing Accrediting Commission, recognizing outstanding performance and will provide increased opportunities for students.

The District received continued accreditation for ten years from the Higher Learning Commission. An extremely successful October 2009 accreditation visit followed an intensive period of self study and resulted in high praise from the team of peer reviewers. Reaffirmation of accreditation will allow the District to continue to advance its mission to create, support and promote lifelong learning. The Higher Learning Commission is in process of restructuring the accreditation pathway, which will demand immediate attention to several critical strategic initiatives: address online processes, quality checks and compensation issues; plan for Assessment of Student Services Support of Student Learning; dedicate resource to sustain network, technology and instructional support resources; implement web conferencing for delivery of coursework.

Request 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, P.O. Box 610, Holbrook, Arizona 86025.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Net Assets - Primary Government
June 30, 2010**

Assets	Business - Type Activities
Current assets:	
Cash and cash equivalents	\$ 2,433,254
Investments	20,477,064
Receivables (net of allowances for uncollectibles)	
Accounts	811,048
Property taxes	588,778
Student loans, current portion	91,489
Inventories	905,460
Prepaid items	<u>1,061,652</u>
Total current assets	26,368,745
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	12,414
Investments	703,778
Property taxes receivable	19,247
Student loans receivable, long term portion	409,371
Capital assets, not being depreciated	709,291
Capital assets, being depreciated, net	<u>31,605,587</u>
Total noncurrent assets	<u>33,459,688</u>
Total assets	<u>59,828,433</u>
Liabilities	
Current liabilities:	
Accounts payable	641,731
Accrued payroll and employee benefits	309,927
Deposits held in custody for others	37,596
Current portion of compensated absences payable	<u>233,370</u>
Total current liabilities	1,222,624
Noncurrent liabilities:	
Compensated absences payable	<u>77,790</u>
Total noncurrent liabilities	<u>77,790</u>
Total liabilities	<u>1,300,414</u>
Net assets	
Invested in capital assets	32,314,878
Restricted:	
Nonexpendable - endowments	12,414
Expendable:	
Restricted investment for NATC	477,769
Scholarships, grants and contracts	226,009
Unrestricted	<u>25,496,949</u>
Total net assets	<u>\$ 58,528,019</u>

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Financial Position - Component Unit
June 30, 2010**

Northland Pioneer College Foundation

Assets

Cash and cash equivalents	\$	32,825
Restricted cash-savings		75,357
Accounts receivable		1,745
Investments:		
Certificates of deposit		42,350
Real estate		18,000
Prepaid expense		8,716
Utility deposit		1,705
Land and building, net of accumulated depreciation		36,250
Total assets	\$	216,948

Liabilities and Net Assets:

Liabilities

Accounts payable	\$	247
Credit card payable		2,344
Total liabilities		2,591

Net Assets

Unrestricted		139,007
Temporarily restricted		21,681
Permanently restricted		53,669
Total net assets		214,357
Total liabilities and net assets	\$	216,948

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, 2010

	Business - Type Activities
Operating revenues:	
Tuition and fees, net of scholarship allowance of \$1,100,276	\$ 3,062,113
Government contracts	1,868,359
Private grants and contracts	450,763
Bookstore income, net of scholarship allowance of \$429,589	701,123
Other sales and services	242,998
Other	54,827
Total operating revenues	6,380,183
Operating expenses:	
<i>Educational and general:</i>	
Instruction	9,067,801
Public service	14,178
Academic support	985,173
Student services	3,750,620
Institutional support	7,151,218
Operation and maintenance of plant	1,599,258
Scholarships	609,337
<i>Auxiliary enterprises</i>	1,270,886
<i>Depreciation</i>	1,435,550
Total operating expenses	25,884,021
Operating loss	(19,503,838)
Nonoperating revenues (expenses):	
Property taxes	11,353,707
State appropriations	10,214,000
Government grants	4,956,184
Share of state sales taxes	422,737
Investment income	130,891
Total nonoperating revenues	27,077,519
Income before other revenues, expenses, gains, or losses	7,573,682
Increase in net assets	7,573,682
Total net assets, July 1, 2009	50,954,337
Total net assets, June 30, 2010	\$ 58,528,019

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Activities - Component Unit
Year Ended June 30, 2010**

Northland Pioneer College Foundation

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Special events revenue, net	\$ 4,738	\$ -	\$ -	\$ 4,738
Contributions	11,511	-	11,605	23,116
Interest income	<u>957</u>	<u>574</u>	<u>56</u>	<u>1,587</u>
Total support and revenue	17,206	574	11,661	29,441
Net Assets Released from Restrictions:				
Satisfaction of donor restrictions	<u>3,045</u>	<u>(3,045)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	20,251	(2,471)	11,661	29,441
Expenses:				
Program services	40,176	-	-	40,176
Support services	<u>21,939</u>	<u>-</u>	<u>-</u>	<u>21,939</u>
Total expenses	<u>62,115</u>	<u>-</u>	<u>-</u>	<u>62,115</u>
Increase(decrease) in net assets	(41,864)	(2,471)	11,661	(32,674)
Net Assets, Beginning of Year (Restated)	<u>180,871</u>	<u>24,152</u>	<u>42,008</u>	<u>247,031</u>
Net Assets, End of Year	<u>\$ 139,007</u>	<u>\$ 21,681</u>	<u>\$ 53,669</u>	<u>\$ 214,357</u>

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Cash Flows - Primary Government
Year Ended June 30, 2010**

	Business - Type Activities
Cash flows from operating activities:	
Tuition and fees	\$ 4,739,197
Government contracts	2,319,122
Bookstore receipts	1,219,770
Other receipts	297,825
Payments to suppliers and providers of goods and services	(8,770,688)
Payments to employees	(15,199,079)
Payments to students for scholarships and loans	<u>(609,337)</u>
Net cash used for operating activities	(16,003,190)
Cash flows from noncapital financing activities:	
Property taxes	11,272,958
State appropriations	10,214,000
Grants	4,956,184
Share of state sales taxes	422,737
Deposits held in custody for others disbursed	<u>1,574</u>
Net cash provided by noncapital financing activities	26,867,453
Cash flows from capital and related financing activities:	
Property taxes	78,606
Acquisition and construction of capital assets	<u>(498,369)</u>
Net cash used for capital and related financing activities	(419,763)
Cash flows from investing activities:	
Interest received on investments	<u>130,891</u>
Net cash provided by investing activities	<u>130,891</u>
Net increase in cash and cash equivalents	10,575,392
Cash and cash equivalents, July 1, 2009	<u>13,051,118</u>
Cash and cash equivalents, June 30, 2010	<u><u>\$ 23,626,510</u></u>

(continued)

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Cash Flows - Primary Government - Concluded
Year Ended June 30, 2010**

	Business - Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (19,503,838)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,435,550
Changes in assets and liabilities:	
Increase in:	
Accounts payable	40,933
Prepaid items	(95,150)
Decrease in:	
Accounts receivable	1,096,990
Accrued payroll and employee benefits	(48,643)
Student loans receivable	580,094
Inventories	518,647
Compensated absences payable	<u>(27,773)</u>
Net cash used for operating activities	<u>\$ (16,003,190)</u>
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and cash equivalents	\$ 2,433,254
Investments	20,477,064
Restricted assets:	
Cash and cash equivalents	12,414
Investments	<u>703,778</u>
Total cash and cash equivalents, June 30, 2010	<u>\$ 23,626,510</u>

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board (FASB) statements for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the District. For financial reporting purposes, only the Foundation's 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, 2010, the Foundation distributed \$27,298 to and on behalf of the District for both restricted and unrestricted purposes. Complete financial statements of the Foundation can be obtained from the Northland Pioneer College Foundation, P. O. Box 610, Holbrook, Arizona 86025-0610.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 1 – Summary of Significant Accounting Policies – Continued

B. Basis of Presentation and Accounting

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

A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy District obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in net assets provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Operating revenues and expenses generally result from 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.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 1 – Summary of Significant Accounting Policies – Continued

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

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

C. Cash and Investments

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 lower of cost (first-in, first-out method) or market.

E. Capital Assets

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

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

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

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 1 – Summary of Significant Accounting Policies – Continued

F. Investment Income

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

G. Compensated Absences

Compensated absences consist of vacation and 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, and bookstore income fees 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 the property of another when making investment decisions about those monies. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk or foreign currency risk for the District's investments.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 2 – Deposits and Investments - Continued

At June 30, 2010, the District’s deposits and investments, including restricted cash consisted of the following:

	Reported on the Statement of Net Assets as:	
	Cash and Cash Equivalents	Investments
Deposits:		
Cash on hand	\$ 11,632	
Cash in bank	2,421,622	
Restricted cash	12,414	
Investment at fair value:		
Held by Navajo County Treasurer		\$ 16,326,869
Investments with State Treasurer’s pool		3,730,552
Restricted investment with State Treasurer		1,123,421
Total	\$ 2,445,668	\$ 21,180,842

Deposits: At June 30, 2010, the carrying amount of the District’s cash in bank was \$2,434,036 with \$12,414 being restricted funds and the bank balance was \$2,674,618. The District currently does not have a deposit policy for custodial credit risk.

Investments: At June 30, 2010, the District’s investments consisted of the following:

	Weighted Average Maturity	Fair Value
County Treasurer’s investment pool	22.1 months	\$ 16,326,869
State Treasurer’s investment pool 5	0.7 months	4,853,973
Total		\$ 21,180,842

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.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 2 – Deposits and Investments - Continued

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

Credit Risk: The District has no investment policy that would further limit its investment choices. As of June 30, 2010, the District's investment in the County Treasurers' investment pools did not receive a credit quality rating from a national rating agency. The State pool that the District invests with has a Standard and Poor's Rating Service rate of AA Af/S1+.

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.

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 709,291	\$ -	\$ -	\$ 709,291
Construction in progress	62,715	-	62,715	-
<i>Total capital assets not being depreciated</i>	<u>772,006</u>	<u>-</u>	<u>62,715</u>	<u>709,291</u>
Capital assets being depreciated:				
Buildings	32,224,278	24,797	-	32,249,075
Equipment	4,929,432	263,451	48,937	5,143,946
Improvements other than buildings	6,978,542	265,870	94,559	7,149,853
Library books	624,638	16,315	32,529	608,424
<i>Total capital assets being depreciated</i>	<u>44,756,890</u>	<u>570,433</u>	<u>176,025</u>	<u>45,151,298</u>
Less accumulated depreciation for:				
Buildings	6,790,294	780,131	-	7,570,425
Equipment	3,430,888	334,889	39,589	3,726,188
Improvements other than buildings	1,723,332	266,658	94,559	1,895,431
Library books	332,323	53,873	32,529	353,667
<i>Total accumulated depreciation</i>	<u>12,276,837</u>	<u>1,435,551</u>	<u>166,677</u>	<u>13,545,711</u>
Total capital assets being depreciated, net	<u>32,480,053</u>	<u>(865,118)</u>	<u>9,348</u>	<u>31,605,587</u>
Capital assets, net	<u>\$ 33,252,059</u>	<u>\$ (865,118)</u>	<u>\$ 72,063</u>	<u>\$ 32,314,878</u>

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 4 – Long-Term Liabilities

Compensated Absences Payable: The following schedule details the District’s long-term liability and obligation activity for the year ended June 30, 2010:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>	<u>Due within one year</u>
Compensated absences payable	\$ 338,933	\$ 319,479	\$ 347,252	\$ 311,160	\$ 233,370

Note 5 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; natural disasters; errors and omissions; and injuries to employees. The District participates with other Arizona community college districts and school districts in the Arizona School Risk Retention Trust, Inc., a public entity risk pool. The Trust insures the District against liabilities arising from general liability, professional liability, property, automobile, boiler and machinery, and commercial crime risks. The Trust’s operating agreement includes a provision for the member to be charged an additional assessment in the event that total claims paid by the Trust exceed the members’ contributions and reserves in any one year. The District will be charged for any such assessment in the following year. The District has never been charged such an assessment.

The District also carries commercial insurance for other risks of loss, including workers’ compensation, accidental death and dismemberment for students and employees, employee travel, and extended reporting for errors and omissions. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years, except in the year ended June 30, 2010, when the District reached its life time no fault limit on mold coverage for one campus and paid additional expenses of \$10,175. 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 does not anticipate any further expenses associated with exhausting its no fault mold coverage.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 5 – Risk Management - Continued

The District was unable to obtain health coverage at a cost it considers to be economically justifiable; therefore, the District joined the Navajo County Schools Employee Benefit Trust (Trust). The District together with other school districts in the state use the 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 would be assessed, on a pro-rata basis, an additional assessment not to exceed the amount of the annual contribution. Should the District withdraw from the Trust, it would then be responsible for its proportional share of claims and would forfeit all rights to the return of any surplus, unearned contributions, or other legally permitted distributions from the Trust. Whether the District withdraws or the Trust becomes insolvent, the District remains liable for assessments for liabilities of the Trust incurred during the District's period of membership in the Trust. The Trust has not assessed the District any additional assessments above its annual contribution in any of the past three fiscal years.

Note 6 – 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, P.O. Box 33910, Phoenix, Arizona 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 6 – Pension and Other Postemployment Benefits - Continued

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, 2010, active plan members were required by statute to contribute at the actuarially determined rate of 9.40 percent (9.00 percent for retirement and 0.4 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 9.40 percent (8.34 percent for retirement, .66 percent for health insurance premium, and 0.4 percent for long-term disability) of the members’ annual covered payroll.

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

	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Years ended June 30,			
2010	\$ 859,122	\$ 67,989	\$ 41,171
2009	929,372	111,664	58,158
2008	880,719	114,876	54,703

Note 7 – Operating Expenses

The District’s operating expenses are presented by functional classification in the Statement of Revenues, Expenses, and Changes in Net Assets – Primary Government. The operating expenses can also be classified into the following:

Personal services	\$ 15,122,656
Contract services	1,729,224
Communications and utilities	1,399,939
Depreciation	1,435,550
Supplies and other services	5,399,355
Scholarships	609,337
Other	187,960
Total	\$ 25,884,021

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 8 – Discretely Presented Component Unit Disclosures

A. Summary of Significant Accounting Policies

The financial statements of Northland Pioneer College Foundation, Inc. (the Foundation) have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Nature of Foundation

The Foundation is a not-for-profit corporation operating in accordance with Section 501(c) (3) of the Internal Revenue Code. The Foundation is located in Snowflake, Arizona, and provides supplemental philanthropic support for students, and programs and services that advance the mission of Northland Pioneer College (NPC). The Foundation receives cash contributions, gifts, and membership dues, administers and invests securities and property, conducts special event fundraisers, and disburses payments to NPC for educational purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Membership dues and other revenues received for support of current operations are recorded as revenues. Membership dues and other revenues received for support of future operations are deferred and recognized over the periods to which the dues and 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 Section 170(b)(1)(A).

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 8 – Discretely Presented Component Unit Disclosures - Continued

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.

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, 2010, is as follows:

Checking	\$ 5,001
Money market	73,269
Savings	<u>29,912</u>
	<u>\$ 108,182</u>

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, 2010, the certificates of deposit totaled \$42,350. Real estate totaled \$18,000 as of June 30, 2010. 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 0.59% to 1.39% for the year ended June 30, 2010.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2010**

Note 8 – Discretely Presented Component Unit Disclosures - Continued

D. Endowment Funds

The Foundation's endowment consists of two funds established for the Charles E. Lisitsky Scholarship and the Martia 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, 2010 the endowment funds consisted of temporarily restricted net assets of \$12,240 and permanently restricted net assets of \$53,669 for a total of \$65,909.

E. Restated Financial Statements

During the year ended June 30, 2010, management discovered that an endowed scholarship (permanently restricted) received during the year ended June 30, 2009 in the amount of \$20,311 had been classified as a restricted use scholarship (temporarily restricted) in error. Also, in accordance with the endowment agreement, 20% of the related interest income earned on this fund must be added back to the permanently restricted principal. This portion of interest income for the year ended June 30, 2009 was \$88 and was also classified as temporarily restricted. The result of these errors was an overstatement of previously reported temporarily restricted net assets and an understatement of previously reported permanently restricted net assets of \$20,399 as of June 30, 2009. The financial statements for the year ended June 30, 2009 have been restated to correct these errors.

SUPPLEMENTARY INFORMATION

**Navajo County Community College District
(Northland Pioneer College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
<i>Passed through White Mountain Apache Tribe</i>			
WIA Adult Program	17.258	B51605008155	\$ 31,945
<i>Passed through Arizona Department of Commerce</i>			
WIA Pilots, Demonstrations, and Research Projects	17.261	2IBM8671	<u>25,587</u>
<i>Total U.S. Department of Labor</i>			<u>57,532</u>
U.S. Small Business Administration			
<i>Passed through Maricopa County Community College District</i>			
Small Business Development Centers	59.037	9-603001Z-0003-17	106,365
U.S. Department of Education			
American Recovery and Reinvestment Act			
<i>Passed through Governor's Office of Economic Recovery</i>			
ARRA-State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394A	None	418,920
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		40,000
Federal Work-Study Program	84.033		99,537
Federal Pell Grant Program	84.063		3,494,842
Academic Competitiveness Grants	84.375		<u>20,224</u>
<i>Total Student Financial Assistance Cluster</i>			<u>3,654,603</u>
<i>Passed through Coconino Community College</i>			
Higher Education - Institutional Aid	84.031A	None	56,666
<i>Passed through the Arizona Department of Education:</i>			
Adult Education - Basic Grants to States	84.002A	09FAEADL-970595-03A	16,038
Adult Education - Basic Grants to States	84.002A	09FAEABE-970595-04A	<u>264,952</u>
<i>Total Adult Education</i>			<u>280,990</u>
Career and Technical Education - Basic Grants to States	84.048	09FCTDBG-970595-01A	133,427
Tech-Prep Education	84.243	09FCTDTP-970595-02A	<u>93,571</u>
<i>Total passed through the Arizona Department of Education</i>			<u>507,988</u>
<i>Passed through Arizona Commission for Postsecondary Education:</i>			
Leveraging Educational Assistance Partnership	84.069	209PE233	51,206
<i>Total U.S. Department of Education</i>			4,689,383
Total Expenditures of Federal Awards			<u><u>\$ 4,853,280</u></u>

See accompanying notes to schedule.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010**

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 2010 *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, 2010.



**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**

The Auditor General of the State of Arizona

The Governing Board of
Navajo County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of the Navajo County Community College District as of and for the year ended June 30, 2010, which collectively comprise Navajo County Community College District's basic financial statements and have issued our report thereon dated December 5, 2010. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with United States of America 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

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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Heinfeld, Meech & Co., P.C.

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

December 5, 2010



**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**

The Auditor General of the State of Arizona

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, 2010. 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.

In our opinion, 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, 2010.

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.

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 combination of deficiencies, in internal control over compliance, such that there is a 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Heinfeld, Meech & Co., P.C.

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

December 5, 2010

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grants
84.394A	ARRA-State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

Other Matters

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

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010**

Status of Federal Award Findings and Questioned Costs

The District had no findings or questioned costs related to federal awards noted in prior audits that still needed to be corrected.