

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

Year ended June 30, 2007

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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, 2007, 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, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of 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 March 3, 2008, 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

March 3, 2008

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2007**

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, 2007. Please read it in conjunction with the financial statements, which immediately follow.

Basic Financial Statements

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

The *Statement of Net Assets* reflects the financial position of the District at June 30, 2007. 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, 2007. 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, 2007. 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 exercises 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

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(Northland Pioneer College)
Management's Discussion and Analysis
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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, 2007 and 2006:

Condensed Statement of Net Assets - Primary Government			
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>% Change</u>
Assets:			
Current assets	\$ 12,234,664	\$ 10,012,546	22%
Noncurrent assets, other than capital assets	41,365	101,166	-59%
Capital assets, net	32,362,806	32,465,028	0%
Total assets	<u>44,638,835</u>	<u>42,578,740</u>	5%
Liabilities:			
Other liabilities	705,698	714,773	-1%
Long-term liabilities	3,930,749	5,757,664	-32%
Total liabilities	<u>4,636,447</u>	<u>6,472,437</u>	-28%
Net Assets:			
Invested in capital assets, net of related debt	28,703,360	27,003,288	6%
Restricted net assets	417,583	72,871	473%
Unrestricted net assets	10,881,445	9,030,144	21%
Total net assets	<u>\$ 40,002,388</u>	<u>\$ 36,106,303</u>	11%

The increase in current assets was primarily related to higher investment balances at year-end of \$1.5 million and the related investment income of \$247,000. The decrease in non-current assets, other than capital assets was due to the collection of \$60,000 in restricted property taxes receivable. The decrease in long-term liabilities was primarily due to the retirement of \$1.8 million of long-term debt during the year. The increase in restricted net assets was related to an increase in expendable scholarships, grants and contracts related primarily to the nursing

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program. Unrestricted net assets increased due to the addition of \$1.5 million in unrestricted investments.

The condensed financial information on the next page highlights the main categories of the Statement of Revenues, Expenses, and Changes in Net Assets. Generally, revenues generated by the District for instruction and public service are considered operating revenues. Other revenues not generated from operations, such as state appropriations and property taxes, are considered nonoperating revenues. In compliance with U.S. generally accepted accounting principles, scholarships applied to tuition and fees are recorded as an offset to operating revenues, instead of being reported as an expense to the District.

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

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

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Management's Discussion and Analysis
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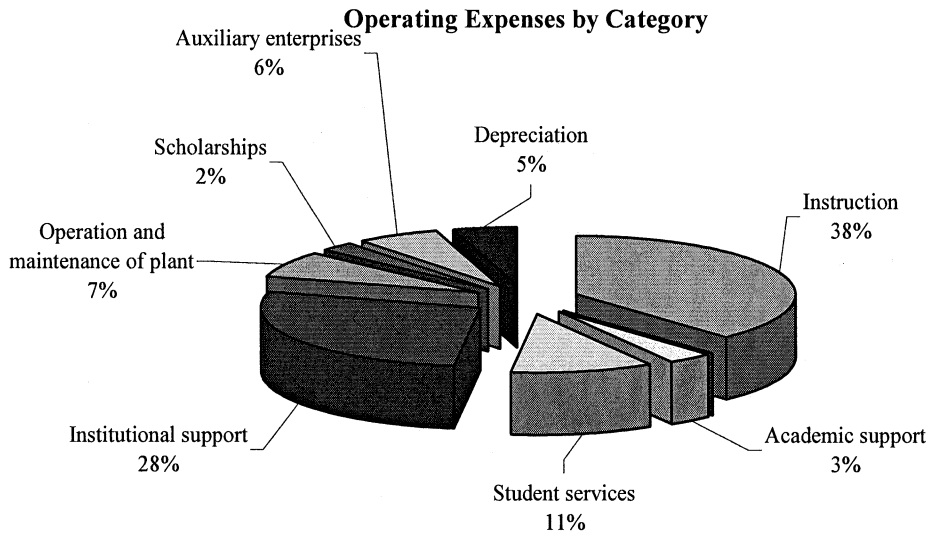
**Condensed Statement of Revenues, Expenses, and
Changes in Net Assets - Primary Government
Year Ended June 30**

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Revenues:			
<i>Operating</i>			
Tuition and fees (net of scholarship allowance)	\$ 2,361,668	\$ 2,390,338	-1%
Government grants and contracts	4,280,466	4,753,639	-10%
Private grants and contracts	636,211	339,768	87%
Bookstore income (net of scholarship allowance)	678,774	849,174	-20%
Other	211,818	231,919	-9%
<i>Nonoperating</i>			
Property taxes	11,022,566	11,122,948	-1%
State appropriations	7,784,925	7,147,900	9%
Share of state sales taxes	512,032	474,307	8%
Investment income	540,886	205,191	164%
Total revenues	<u>28,029,346</u>	<u>27,515,184</u>	2%
Expenses:			
<i>Operating</i>	24,517,027	23,162,318	6%
<i>Nonoperating</i>	185,709	226,053	-18%
Total expenses	<u>24,702,736</u>	<u>23,388,371</u>	6%
Income before other revenues, expenses, gains, or losses	3,326,610	4,126,813	-19%
Capital appropriations	569,475	576,900	-1%
Increase in net assets	3,896,085	4,703,713	-17%
Total net assets, July 1	36,106,303	31,402,590	15%
Total net assets, June 30	<u>\$ 40,002,388</u>	<u>\$ 36,106,303</u>	11%

Government grants and contracts decreased by \$217,000 related to timing of a County contract; and by \$185,000 in Out-of-County Tuition reimbursements due to lower enrollment. Private grants and contracts increased due to additional nursing grants of \$242,000. Bookstore income for fiscal year 2006 was artificially high due to a one-time adjustment, therefore when comparing the year-over-year change for fiscal year 2007 the bookstore income shows a decrease. If the one time adjustment was excluded, bookstore income would have increased by 8%. Investment income increased \$247,000 due to higher balances invested with the State and County Treasurers.

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2007**

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Operating Expenses			
Educational and general:			
Instruction	\$ 9,305,328	\$ 9,299,812	0%
Public service	9,548	10,020	-5%
Academic support	817,101	874,888	-7%
Student services	2,585,022	2,395,805	8%
Institutional support	6,789,420	5,583,393	22%
Operation and maintenance of plant	1,725,738	1,831,712	-6%
Scholarships	602,880	555,108	9%
Auxiliary enterprises	1,551,240	1,479,195	5%
Depreciation	1,130,750	1,132,385	0%
Total operating expenses	<u>24,517,027</u>	<u>23,162,318</u>	6%
Nonoperating Expenses			
Interest expense on debt	185,709	226,053	-18%
Total nonoperating expenses	<u>185,709</u>	<u>226,053</u>	-18%
Total Expenses	<u>\$ 24,702,736</u>	<u>\$ 23,388,371</u>	6%



Education and general operating expenses for fiscal year 2007 increased 6% due to annual salary increases and rising costs of health insurance. Institutional support also increased because of higher marketing costs; higher telephone systems and network costs; and additional non-capital expenses. Interest expense on debt continues to decrease as the District reduces its debt related to general obligation bonds and certificates of participation.

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2007**

Capital Assets and Debt Administration

The District followed the Capital Project Development Plan approved in January 2006, which outlined new construction and renovation projects. The expansion and remodel of a classroom and office facility at the Painted Desert Campus were completed during this fiscal year. Additional information on the District's capital assets can be found in Note 3 to the basic financial statements.

At June 30, 2007, the District had two debt issues outstanding, one general obligation bond originally issued for \$9,015,000 with \$3,165,000 outstanding and one issue of certificates of participation originally issued for \$2,410,000 with \$455,000 outstanding. Long-term debt is funded primarily from property taxes. No additional long-term debt was issued during the fiscal year. Additional information on the District's long-term debt can be found in Note 4 to the basic financial statements.

Current Factors Having Probable Future Financial Significance

It is anticipated that state appropriations will decline as a percentage of total revenue. The District will continue to shift additional financial responsibility for education to students in the form of increased tuition and fees. It is also expected that property taxes will be levied at the maximum rate. The District is currently planning the development of a comprehensive Master Facilities Plan to address the future direction and growth of the District.

The District will continue to pursue program funding from external sources such as federal and local grants and contracts, along with community and business partnerships. In fiscal year 2005, the District, in conjunction with Coconino Community College, received a Title III – Strengthening Institutions Program grant from the U.S. Department of Education. The grant provides funding over a five-year period to develop distance learning.

The District qualified for State equalization aid totaling \$3,372,625 for the fiscal year, with that amount being included in the state appropriations total. Equalization aid is a critical revenue source for the District.

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

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

**Navajo County Community College District
(Northland Pioneer College)
Statement of Net Assets - Primary Government
June 30, 2007**

Assets	Business - Type Activities
Current assets:	
Cash and cash equivalents	\$ 1,388,090
Investments	7,367,167
Receivables (net of allowances for uncollectibles)	
Accounts	73,500
Property taxes	475,589
Government grants and contracts	133,846
Student loans	1,685,872
Inventories	1,095,600
Prepaid items	<u>15,000</u>
Total current assets	12,234,664
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	12,414
Property taxes receivable	28,951
Capital assets, not being depreciated	924,783
Capital assets, being depreciated, net	<u>31,438,023</u>
Total noncurrent assets	<u>32,404,171</u>
Total assets	<u>44,638,835</u>
Liabilities	
Current liabilities:	
Accounts payable	354,072
Accrued payroll and employee benefits	320,508
Deposits held in custody for others	31,118
Current portion of compensated absences payable	203,478
Current portion of long-term debt	<u>1,819,446</u>
Total current liabilities	2,728,622
Noncurrent liabilities:	
Compensated absences payable	67,825
Long-term debt	<u>1,840,000</u>
Total noncurrent liabilities	<u>1,907,825</u>
Total liabilities	<u>4,636,447</u>
Net assets	
Invested in capital assets, net of related debt	28,703,360
Restricted:	
Nonexpendable - endowments	12,414
Expendable:	
Scholarships, grants and contracts	405,169
Unrestricted	<u>10,881,445</u>
Total net assets	<u>\$ 40,002,388</u>

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Financial Position - Component Unit
June 30, 2007**

Northland Pioneer College Foundation

Assets

Cash and cash equivalents	\$	33,562
Restricted cash-savings		40,410
Accounts receivable		4,996
Interest receivable		185
Investments:		
Certificates of deposit		87,701
Real estate		18,000
Land and building, net of accumulated depreciation		40,000
Total assets	\$	224,854

Liabilities and Net Assets:

Liabilities

Accounts payable	\$	2,460
Total liabilities		2,460

Net Assets

Unrestricted		181,984
Temporarily restricted		40,410
Total net assets		222,394
Total liabilities and net assets	\$	224,854

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, 2007

	<u>Business - Type Activities</u>
Operating revenues:	
Tuition and fees, net of scholarship allowance of \$501,747	\$ 2,361,668
Government grants and contracts	4,280,466
Private grants and contracts	636,211
Bookstore income, net of scholarship allowance of \$268,205	678,774
Dormitory rentals and fees, net of scholarship allowance of \$4,210	1,790
Other sales and services	94,565
Other	<u>115,463</u>
Total operating revenues	8,168,937
Operating expenses:	
<i>Educational and general:</i>	
Instruction	9,305,328
Public service	9,548
Academic support	817,101
Student services	2,585,022
Institutional support	6,789,420
Operation and maintenance of plant	1,725,738
Scholarships	602,880
<i>Auxiliary enterprises</i>	1,551,240
<i>Depreciation</i>	<u>1,130,750</u>
Total operating expenses	<u>24,517,027</u>
Operating loss	(16,348,090)
Nonoperating revenues (expenses):	
Property taxes	11,022,566
State appropriations	7,784,925
Share of state sales taxes	512,032
Investment income	540,886
Interest expense on debt	<u>(185,709)</u>
Total nonoperating revenues	<u>19,674,700</u>
Income before other revenues, expenses, gains, or losses	3,326,610
Capital appropriations	<u>569,475</u>
Increase in net assets	3,896,085
Total net assets, July 1, 2006	<u>36,106,303</u>
Total net assets, June 30, 2007	<u><u>\$ 40,002,388</u></u>

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Activities - Component Unit
Year Ended June 30, 2007**

Northland Pioneer College Foundation

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Membership dues	\$ 772	\$ -	\$ 772
Special events revenue, net	4,991	-	4,991
Contributions	166	1,695	1,861
Interest income	5,676	-	5,676
Total support and revenue	11,605	1,695	13,300
Net Assets Released from Restrictions:			
Satisfaction of donor restrictions	1,881	(1,881)	-
Total support, revenue, and net assets released from restrictions	13,486	(186)	13,300
Expenses:			
Program services	35,287	-	35,287
Support services	6,838	-	6,838
Total expenses	42,125	-	42,125
Decrease in net assets	(28,639)	(186)	(28,825)
Total net assets, July 1, 2006	210,623	40,596	251,219
Total net assets, June 30, 2007	\$ 181,984	\$ 40,410	\$ 222,394

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Cash Flows - Primary Government
Year Ended June 30, 2007**

Cash flows from operating activities:	Business - Type Activities
Tuition and fees	\$ 2,069,970
Grants and contracts	4,916,677
Bookstore receipts	492,046
Dormitory rentals and fees	1,790
Other receipts	210,029
Payments to suppliers and providers of goods and services	(8,332,685)
Payments to employees	(14,485,324)
Payments to students for scholarships and loans	(602,880)
	(15,730,377)
Net cash used for operating activities	(15,730,377)
 Cash flows from noncapital financing activities:	
Property taxes	9,228,959
State appropriations	7,784,925
Share of state sales taxes	512,032
Deposits held in custody for others received	1,830
Deposits held in custody for others disbursed	(915)
	17,526,831
Net cash provided by noncapital financing activities	17,526,831
 Cash flows from capital and related financing activities:	
Property taxes	1,744,068
Capital appropriations	569,475
Principal paid on capital debt	(1,802,294)
Interest paid on capital debt	(185,709)
Acquisition and construction of capital assets	(1,028,528)
	(702,988)
Net cash used for capital and related financing activities	(702,988)
 Cash flows from investing activities:	
Interest received on investments	540,886
	540,886
Net cash provided by investing activities	540,886
 Net increase in cash and cash equivalents	1,634,352
Cash and cash equivalents, July 1, 2006	7,133,319
	8,767,671
Cash and cash equivalents, June 30, 2007	\$ 8,767,671

(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, 2007**

	Business - Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (16,348,090)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,130,750
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	11,014
Student loans receivable	(302,712)
Inventories	(186,728)
Accrued payroll and employee benefits	2,460
Decrease in:	
Accounts payable	(12,450)
Compensated absences payable	(24,621)
Net cash used for operating activities	\$ (15,730,377)
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and cash equivalents	\$ 1,388,090
Investments	7,367,167
Restricted assets:	
Cash and cash equivalents	12,414
Total cash and cash equivalents, June 30, 2007	\$ 8,767,671

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2007**

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 statement 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, 2007, the Foundation distributed \$35,287 to and on behalf of the District for both restricted and unrestricted purposes. Complete financial statements of the Foundation can be obtained for 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 - Continued
June 30, 2007**

Note 1 – Summary of Significant Accounting Policies – Continued

B. Basis of Presentation and Accounting

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

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

A statement of revenues, expenses, and changes in net assets provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Operating revenues and expenses generally result from providing instructional, public, and auxiliary services, which is consistent with the District's mission. Accordingly, revenues such as tuition, educational grants, and bookstore, food service, and dormitory charges are considered to be operating revenues. Other revenues, such as property taxes and state appropriations, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

A statement of cash flows provides information about the District's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as 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 - Continued
June 30, 2007**

Note 1 – Summary of Significant Accounting Policies – Continued

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

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

C. Cash and Investments

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

D. Inventories

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

E. Capital Assets

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

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

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

F. Investment Income

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

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2007**

Note 1 – Summary of Significant Accounting Policies – Continued

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, bookstore income, and dormitory rentals and 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 - Continued
June 30, 2007**

Note 2 – Deposits and Investments - Continued

At June 30, 2007, 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	\$ 11,839	
Cash in bank	1,376,251	
Restricted cash	12,414	
Investment at fair value:		
Held by Navajo County Treasurer		\$ 4,719,844
Investments with State Treasurer's pool		2,647,322
Total	\$ 1,400,504	\$ 7,367,166

Deposits: At June 30, 2007, the carrying amount of the District's cash in bank was \$1,388,665 with \$12,414 being restricted funds and the bank balance was \$391,512. The District currently does not have a deposit policy for custodial credit risk.

Investments: At June 30, 2007, the District's investments consisted of the following:

	Weighted Average Maturity	Fair Value
County Treasurer's investment pool	12.7 months	\$ 4,719,844
State Treasurer's investment pool 5	1.3 months	2,647,322
Total		\$ 7,367,166

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 - Continued
June 30, 2007**

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, 2007, the District's investment in the State and County Treasurers' investment pools did not receive a credit quality rating from a national rating agency.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of counterparty's failure, the District will not be able to recover the value of its investments or collateral securities that are in 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, 2007, was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 809,291	\$ -	\$ -	\$ 809,291
Construction in progress (estimated cost to complete \$ 657,733)	2,144,880	489,943	2,519,331	115,492
<i>Total capital assets not being depreciated</i>	<u>2,954,171</u>	<u>489,943</u>	<u>2,519,331</u>	<u>924,783</u>
Capital assets being depreciated:				
Buildings	29,980,721	2,727,361	21,581	32,686,501
Equipment	2,842,700	278,191	9,567	3,111,324
Improvements other than buildings	4,979,602	-	-	4,979,602
Library books	599,298	52,364	56,924	594,738
<i>Total capital assets being depreciated</i>	<u>38,402,321</u>	<u>3,057,916</u>	<u>88,072</u>	<u>41,372,165</u>
Less accumulated depreciation for:				
Buildings	5,386,730	689,982	21,581	6,055,131
Equipment	1,845,187	265,633	9,567	2,101,253
Improvements other than buildings	1,349,862	124,490	-	1,474,352
Library books	309,685	50,645	56,924	303,406
<i>Total accumulated depreciation</i>	<u>8,891,464</u>	<u>1,130,750</u>	<u>88,072</u>	<u>9,934,142</u>
Total capital assets being depreciated, net	<u>29,510,857</u>	<u>1,927,166</u>	<u>-</u>	<u>31,438,023</u>
Capital assets, net	<u>\$ 32,465,028</u>	<u>\$ 2,417,109</u>	<u>\$ 2,519,331</u>	<u>\$ 32,362,806</u>

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2007**

Note 4 – Long-Term Liabilities

The following schedule details the District’s long-term liability and obligation activity for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Due within one year</u>
Compensated absences payable	\$ 295,924	\$ 171,854	\$ 196,474	\$ 271,303	\$ 203,478
General obligation refunding bonds payable	\$ 4,680,000	\$ -	\$ 1,515,000	\$ 3,165,000	\$ 1,560,000
Certificates of participation payable	665,000		210,000	455,000	220,000
Installment purchase contract payable	116,740		77,294	39,446	39,446
Total long-term debt	<u>\$ 5,461,740</u>	<u>\$ -</u>	<u>\$ 1,802,294</u>	<u>\$ 3,659,446</u>	<u>\$ 1,819,446</u>

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

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District’s financial statements. At June 30, 2007, \$4,150,000 of bonds outstanding is considered defeased.

Bonds outstanding at June 30, 2007, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Refunding bonds, Series 2003	<u>\$ 9,015,000</u>	2007 – 09	2.75% - 3.5%	<u>\$ 3,165,000</u>

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2007**

Note 4 – Long-Term Liabilities - Continued

The following schedule details debt service requirements to maturity for the District's bonds payable at June 30, 2007:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2008	\$ 1,560,000	\$ 99,075
2009	1,605,000	56,175
Total	\$ 3,165,000	\$ 155,250

Certificates of participation – In April of 1994, the District issued \$2,410,000 in certificates of participation with an average interest rate of 6.17 percent. The certificates are generally callable with interest payment semiannually. Of the total proceeds, \$1,500,000 was used to construct a classroom building in Show Low, Arizona, and the remaining \$910,000 was obligated to advance refund outstanding series 1990 revenue bonds by placing it in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2007, \$550,000 of defeased revenue bonds is outstanding.

Certificates outstanding at June 30, 2007, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Certificates of participation, Series 1994	\$ 2,410,000	2007 – 09	6.4 % - 6.55%	\$ 455,000

The following schedule details debt service requirements to maturity for the District's certificates of participation payable at June 30, 2007:

Year Ending June 30,	Principal	Interest
2008	\$ 220,000	\$ 29,583
2009	235,000	7,696
Total	\$ 455,000	\$ 37,279

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2007**

Note 4 – Long-Term Liabilities - Continued

Installment purchase contracts – The District has acquired vehicles under contract agreements at a total purchase price of \$300,986. The following schedule details debt service requirements to maturity for the District’s installment purchase contract payable at June 30, 2007.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	<u>\$ 39,446</u>	<u>\$ 542</u>

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.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2007**

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

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

Funding policy – The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2007, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2007, 2006, and 2005, were \$910,572, \$729,113, and \$508,940, respectively, which were equal to the required contributions for the year.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2007**

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	\$ 17,481,916
Contract services	2,634,480
Communications and utilities	1,494,933
Depreciation	1,130,750
Supplies and other services	994,203
Scholarships	602,880
Other	177,866
	<hr/>
Total	<u>\$ 24,517,028</u>

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 assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2007**

Note 8 – Discretely Presented Component Unit Disclosures - Continued

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 has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

The Foundation has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Investments

The Foundation has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets.

B. Cash

The total cash held by the Foundation at June 30, 2007, is as follows:

Petty cash	\$ 200
Checking	13,262
Money market	<u>60,510</u>
	<u>\$ 73,972</u>

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2007**

Note 8 – Discretely Presented Component Unit Disclosures - Continued

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, 2007, the certificates of deposit totaled \$87,701. Real estate totaled \$18,000 as of June 30, 2007. These investments are stated at market value and adjustments have been made to accrue interest income on the certificates of deposit. The certificates of deposits earned interest at rates varying from 4.15% to 4.4% for the year ended June 30, 2007.

SUPPLEMENTARY INFORMATION

**Navajo County Community College District
(Northland Pioneer College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007**

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	\$ 17,602
<i>Passed through Arizona Department of Commerce</i>			
WIA Pilots, Demonstration, and Research Projects	17.261	2IBM8671	13,340
<i>Passed through Arizona Department of Education</i>			
Adult Education - WIA Incentive Grant Section 503	17.267	07FAEAED-770595-06A	<u>10,489</u>
<i>Total U.S. Department of Labor</i>			<u>41,431</u>
U.S. Small Business Administration			
<i>Passed through Maricopa County Community College District</i>			
Small Business Development Center	59.037	7-603001Z-0003-15	<u>95,991</u>
U.S. Department of Health and Human Services			
Rural Emergency Medical Service Training Equipment and Assistance	93.259		<u>40,663</u>
U.S. Department of Education			
<i>Student Financial Assistance Cluster</i>			
Federal Supplemental Educational Opportunity Grant	84.007		74,500
Federal Work-Study Program	84.033		105,528
Federal Pell Grant Program	84.063		1,554,133
Academic Competitiveness Grant	84.375		<u>6,525</u>
<i>Total Student Financial Assistance Cluster</i>			<u>1,740,686</u>
<i>Passed through the Arizona Department of Education:</i>			
Adult Education - State Grant Program	84.002A	07FAEABE-770595-01A	260,035
Adult Education - ASE Reframing Pilot	84.002	07FAEARP-770595-05A	21,099
Vocational Education - Basic Grants to States	84.048	07FCTDBG-770595-04A	273,349
Tech-Prep Education	84.243	06FCTDTP-670595-02A	98,045
<i>Passed through Arizona Commission for Postsecondary Education:</i>			
Leveraging Educational Assistance Partnership	84.069	207PE288	<u>54,466</u>
<i>Total U.S. Department of Education</i>			<u>2,447,680</u>
Total Expenditures of Federal Awards			<u>\$ 2,625,765</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, 2007**

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 2007 *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, 2007.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Auditor General of the State of Arizona

The Governing Board of
Navajo County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Navajo County Community College District as of and for the year ended June 30, 2007, which collectively comprise Navajo County Community College District's basic financial statements and have issued our report thereon dated March 3, 2008. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Navajo County Community College District's internal control over financial reporting 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 Navajo County Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Navajo County Community College District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's basic financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider items 07-1 and 07-2 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 07-1 to be a material weakness.

Compliance and Other Matters

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

We also noted certain additional matters that we reported to management of Navajo County Community College District in a separate letter dated March 3, 2008.

Navajo County Community College District's responses to the findings identified in our audit are presented in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Heinfeld, Meech & Co., P.C.

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

March 3, 2008



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

The Auditor General of the State of Arizona

The Governing Board of
Navajo County Community College District

Compliance

We have audited the compliance of Navajo County Community College District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. Navajo County Community College District's major federal program is 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 its major federal program 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 requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Navajo County Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the 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, 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 control deficiency in the District's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Governing Board, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Heinfeld, Meech & Co., P.C.

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

March 3, 2008

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? X yes 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 that are not considered to be a material weakness(es)? yes X none reported

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

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

Identification of major programs:

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

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, 2007**

SECTION II - FINANCIAL STATEMENT FINDINGS

07-1 CONDITION/CONTEXT

The District did not always perform monthly reconciliations for all its bank accounts. As a result, material reconciling items on the District's cash and investment accounts were not investigated and were not properly reconciled to the District's accounting records and financial statements.

CRITERIA

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

EFFECT

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

CAUSE

The District has not been adequately staffed for nearly a year due to turnover. This resulted in having limited resources and/or personnel to properly perform the reconciliation processes and procedures.

RECOMMENDATION

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

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District is aware of the issue and concurs with the finding. The District has recently hired a Director of Financial Services and a Controller to develop and implement new procedures and reorganize the finance staff to ensure bank reconciliations are performed monthly and reconciling items are properly investigated.

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION II - FINANCIAL STATEMENT FINDINGS (Concl'd)

07-2 CONDITION/CONTEXT

The District's management did not have adequate internal control procedures in place over the basic financial statements issued by the District. While the District's management and staff have an understanding of Arizona statutes, budgetary controls, general ledger controls, and compliance requirements, sufficient internal controls are not in place for the basic financial statements and related notes to the financial statements.

CRITERIA

District management is responsible for establishing and maintaining internal controls that include controls for the GAAP basis financial statements issued by the District. The District's system of internal controls must extend beyond the general ledger and the supporting schedules prepared by the District; rather it must also include controls over the preparation of the GAAP basis financial statements. As such, management requested a third party to prepare a draft of the financial statements, including related note disclosures. The outsourcing of these services is not unusual for governmental entities in the State of Arizona and is a result of management's cost benefit decision to rely on the accounting expertise of a third party.

EFFECT

The District's internal controls over financial reporting at the financial statement level are not adequate to ensure that a misstatement would be prevented and/or detected.

CAUSE

The District has not been adequately staffed for nearly a year due to turnover. This resulted in having limited resources and/or personnel to prepare the financial statements. As a solution, the District chose to outsource preparation of the financial statement to a third party. However, due to the District's reduced personnel, the District was unable to establish sufficient controls over financial reporting at the financial statement level.

RECOMMENDATION

The District should design and implement effective internal control procedures to ensure the financial statements and related notes are free from material misstatements. Specifically, the District should use checklists to aid in the review of the financial statements and related notes to the financial statements. The District's personnel should obtain additional training to increase their understanding of the GAAP basis financial statements drafted by an outsourced third party as well as any related accrual adjusting entries.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District is aware of the issue and concurs with the finding. With the recent addition of the Director of Financial Services and Controller, the District will design and implement effective internal controls over financial reporting at the financial statement level.

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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