

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

Year ended June 30, 2008

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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, 2008, 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, 2008, 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 October 24, 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.
Certified Public Accountants

October 24, 2008

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2008**

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, 2008. 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, 2008. 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, 2008. 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, 2008. 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

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2008**

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, 2008 and 2007:

Condensed Statement of Net Assets - Primary Government

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>% Change</u>
Assets:			
Current assets	\$ 13,720,264	\$ 12,234,664	12%
Noncurrent assets, other than capital assets	1,551,434	41,365	3651%
Capital assets, net	32,533,926	32,362,806	1%
Total assets	<u>47,805,624</u>	<u>44,638,835</u>	7%
Liabilities:			
Other liabilities	660,926	705,698	-6%
Long-term liabilities	2,166,816	3,930,749	-45%
Total liabilities	<u>2,827,742</u>	<u>4,636,447</u>	-39%
Net Assets:			
Invested in capital assets, net of related debt	30,693,926	28,703,360	7%
Restricted net assets	560,887	417,583	34%
Unrestricted net assets	13,723,069	10,881,445	26%
Total net assets	<u>\$ 44,977,882</u>	<u>\$ 40,002,388</u>	12%

The increase in noncurrent assets is related to the reclassification of accounts receivables to noncurrent assets. Year-end investment balance was \$1.6 million higher and accounts receivable was \$809,000 higher related primarily to an intergovernmental agreement (IGA) with Northern Arizona Vocational Institute of Training (NAVIT). The increase in noncurrent assets of \$529,000 is primarily related to restricted investments for Northern Arizona Training Center (NATC)¹. The decrease in total liabilities is due to the retirement of \$1.8 million of debt during

¹ In fiscal year 2007-08, the District received Capital Outlay State Aid of \$1.0 million to construct a public safety and emergency services training facility known as NATC.

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(Northland Pioneer College)
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the year. The balance of the debt matures in the upcoming fiscal year. Restricted net assets increased \$143,000 related to an increase of \$463,000 for NATC restricted investment offset by a decrease of \$320,000 for expendable scholarships, grants, and contracts. Unrestricted net assets increased \$2.8 million to net increase from operations of the College.

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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(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2008**

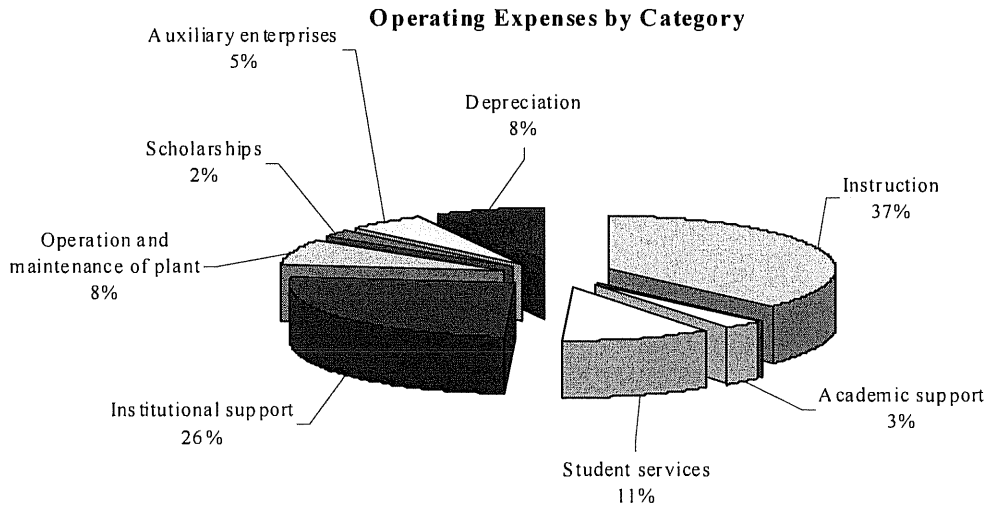
**Condensed Statement of Revenues, Expenses, and
Changes in Net Assets - Primary Government
Year Ended June 30**

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Revenues:			
<i>Operating</i>			
Tuition and fees (net of scholarship allowance)	\$ 2,483,223	\$ 2,361,668	5%
Government contracts	3,032,846	4,280,466	-29%
Private grants and contracts	871,651	636,211	37%
Bookstore income (net of scholarship allowance)	995,347	678,774	47%
Other	172,720	211,818	-18%
<i>Nonoperating</i>			
Property taxes	11,651,832	11,022,566	6%
State appropriations	9,717,500	7,784,925	25%
Government grants	3,146,431	-	100%
Share of state sales taxes	487,131	512,032	-5%
Investment income	502,903	540,886	-7%
Total revenues	<u>33,061,584</u>	<u>28,029,346</u>	18%
Expenses:			
<i>Operating</i>	27,847,820	24,517,027	14%
<i>Nonoperating</i>	743,870	185,709	301%
Total expenses	<u>28,591,690</u>	<u>24,702,736</u>	16%
Income before other revenues, expenses, gains, or losses	4,469,894	3,326,610	34%
Capital appropriations	505,600	569,475	-11%
Increase in net assets	4,975,494	3,896,085	28%
Total net assets, July 1	40,002,388	36,106,303	11%
Total net assets, June 30	<u>\$ 44,977,882</u>	<u>\$ 40,002,388</u>	12%

Government contracts in prior years included Government grants. Government grants have been reclassified as nonoperating revenue. Private grants and contracts increased \$235,000 related to two donations for scholarships in the amount of \$250,000 and \$10,000. Bookstore income increased \$317,000 driven by increased annual full-time student equivalents of 8.6% and increased cost of books. State appropriations increased by \$1.9 million related primarily to \$1.0 million of capital aid for NATC and \$933,000 of equalization aid. Nonoperating expenses increased \$558,000 primarily related to sale of District property resulting in a loss of \$612,000.

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2008**

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Operating Expenses			
Educational and general:			
Instruction	\$ 10,355,967	\$ 9,305,328	11%
Public service	12,562	9,548	32%
Academic support	803,190	817,101	-2%
Student services	3,018,052	2,585,022	17%
Institutional support	7,141,298	6,789,420	5%
Operation and maintenance of plant	2,182,091	1,725,738	26%
Scholarships	630,161	602,880	5%
Auxiliary enterprises	1,508,514	1,551,240	-3%
Depreciation	2,195,985	1,130,750	94%
Total operating expenses	<u>27,847,820</u>	<u>24,517,027</u>	14%
Nonoperating Expenses			
Interest expense on debt	131,411	185,709	-29%
Other - loss on sale of district property	612,459	-	100%
Total nonoperating expenses	<u>743,870</u>	<u>185,709</u>	301%
Total Expenses	<u>\$ 28,591,690</u>	<u>\$ 24,702,736</u>	16%



Student Services increased during the year by \$433,000. In general the increase was due to the annual salary increase of 6% and the hiring of new personnel for a total of \$350,000. Operation and maintenance of plant increased \$456,000 related to repair and maintenance of aging facilities at all four campuses and six centers. Interest expense decreased \$54,000 related to decrease in debt. Depreciation increase was mostly due to adjusting for the physical inventory of Information Services Department. Other nonoperating expense shows a loss of \$612,000 related to the sale of the District's former campus in Holbrook located on Hermosa Drive.

**Navajo County Community College District
(Northland Pioneer College)
Management's Discussion and Analysis
Year Ended June 30, 2008**

Capital Assets and Debt Administration

The District has completed the projects identified in the Capital Project Development Plan approved in January 2006, and received Board approval to develop a comprehensive multi-year, multi-phase Master Facilities plan. The plan will encompass new construction, renewal of facilities, elimination of modular structures, upgrading technology and communications systems, and improving parking conditions. Additional information on the District's capital assets can be found in Note 3 to the basic financial statements.

At June 30, 2008, the District had two debt issues outstanding, one general obligation bond issue originally issued for \$9,015,000 with \$1,605,000 outstanding and one issue of certificates of participation originally issued for \$2,410,000 with \$235,000 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 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 \$4,305,200 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, 2008**

Assets	Business - Type Activities
Current assets:	
Cash and cash equivalents	\$ 1,764,822
Investments	8,944,783
Receivables (net of allowances for uncollectibles)	
Accounts	882,461
Property taxes	439,636
Student loans, current portion	374,721
Inventories	<u>1,313,841</u>
Total current assets	13,720,264
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	12,414
Investments	463,318
Property taxes receivable	94,929
Student loans receivable, long term portion	980,773
Capital assets, not being depreciated	2,299,281
Capital assets, being depreciated, net	<u>30,234,645</u>
Total noncurrent assets	<u>34,085,360</u>
Total assets	<u>47,805,624</u>
Liabilities	
Current liabilities:	
Accounts payable	402,169
Accrued payroll and employee benefits	222,290
Deposits held in custody for others	36,467
Current portion of compensated absences payable	245,082
Current portion of long-term debt	<u>1,840,000</u>
Total current liabilities	2,746,008
Noncurrent liabilities:	
Compensated absences payable	<u>81,734</u>
Total noncurrent liabilities	<u>81,734</u>
Total liabilities	<u>2,827,742</u>
Net assets	
Invested in capital assets, net of related debt	30,693,926
Restricted:	
Nonexpendable - endowments	12,414
Expendable:	
Restricted investment for NATC	463,318
Scholarships, grants and contracts	85,155
Unrestricted	<u>13,723,069</u>
Total net assets	<u>\$ 44,977,882</u>

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Financial Position - Component Unit
June 30, 2008**

Northland Pioneer College Foundation

Assets

Cash and cash equivalents	\$	22,412
Restricted cash-savings		39,358
Accounts receivable		2,200
Interest receivable		105
Investments:		
Certificates of deposit		87,081
Real estate		18,000
Land and building, net of accumulated depreciation		<u>38,750</u>
Total assets	\$	<u><u>207,906</u></u>

Liabilities and Net Assets:

Liabilities

Accounts payable	\$	<u>638</u>
Total liabilities		<u>638</u>

Net Assets

Unrestricted		167,910
Temporarily restricted		<u>39,358</u>
Total net assets		<u>207,268</u>
Total liabilities and net assets	\$	<u><u>207,906</u></u>

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, 2008**

	Business - Type Activities
Operating revenues:	
Tuition and fees, net of scholarship allowance of \$539,022	\$ 2,483,223
Government contracts	3,032,846
Private grants and contracts	871,651
Bookstore income, net of scholarship allowance of \$281,772	995,347
Other sales and services	120,647
Other	<u>52,073</u>
Total operating revenues	7,555,787
Operating expenses:	
<i>Educational and general:</i>	
Instruction	10,355,967
Public service	12,562
Academic support	803,190
Student services	3,018,052
Institutional support	7,141,298
Operation and maintenance of plant	2,182,091
Scholarships	630,161
<i>Auxiliary enterprises</i>	1,508,514
<i>Depreciation</i>	<u>2,195,985</u>
Total operating expenses	<u>27,847,820</u>
Operating loss	(20,292,033)
Nonoperating revenues (expenses):	
Property taxes	11,651,832
State appropriations	9,717,500
Government grants	3,146,431
Share of state sales taxes	487,131
Investment income	502,903
Other - loss on sale of district property	(612,459)
Interest expense on debt	<u>(131,411)</u>
Total nonoperating revenues	<u>24,761,927</u>
Income before other revenues, expenses, gains, or losses	4,469,894
Capital appropriations	<u>505,600</u>
Increase in net assets	4,975,494
Total net assets, July 1, 2007	<u>40,002,388</u>
Total net assets, June 30, 2008	<u><u>\$ 44,977,882</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, 2008**

Northland Pioneer College Foundation

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Special events revenue, net	\$ 10,002	\$ -	\$ 10,002
Interest income	4,214	-	4,214
Total support and revenue	14,216	-	14,216
Net Assets Released from Restrictions:			
Satisfaction of donor restrictions	1,052	(1,052)	-
Total support, revenue, and net assets released from restrictions	15,268	(1,052)	14,216
Expenses:			
Program services	22,302	-	22,302
Support services	7,040	-	7,040
Total expenses	29,342	-	29,342
Decrease in net assets	(14,074)	(1,052)	(15,126)
Total net assets, July 1, 2007	181,984	40,410	222,394
Total net assets, June 30, 2008	\$ 167,910	\$ 39,358	\$ 207,268

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Statement of Cash Flows - Primary Government
Year Ended June 30, 2008**

	Business - Type Activities
Cash flows from operating activities:	
Tuition and fees	\$ 2,004,640
Government contracts	4,038,343
Bookstore receipts	777,106
Other receipts	172,720
Payments to suppliers and providers of goods and services	(9,367,760)
Payments to employees	(15,648,520)
Payments to students for scholarships and loans	(630,161)
	(18,653,632)
Net cash used for operating activities	
 Cash flows from noncapital financing activities:	
Property taxes	10,023,362
State appropriations	9,717,500
Grants	3,146,431
Share of state sales taxes	487,131
Deposits held in custody for others received	25,332
Deposits held in custody for others disbursed	(4,985)
	23,394,771
Net cash provided by noncapital financing activities	
 Cash flows from capital and related financing activities:	
Property taxes	1,598,445
Capital appropriations	505,600
Principal paid on capital debt	(1,819,446)
Interest paid on capital debt	(131,411)
Acquisition and construction of capital assets	(2,979,564)
	(2,826,376)
Net cash used for capital and related financing activities	
 Cash flows from investing activities:	
Interest received on investments	502,903
	502,903
Net cash provided by investing activities	
	502,903
Net increase in cash and cash equivalents	2,417,666
Cash and cash equivalents, July 1, 2007	8,767,671
	\$ 11,185,337

(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, 2008**

	Business - Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (20,292,033)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	2,195,985
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(808,961)
Accounts payable	48,097
Inventories	(218,241)
Compensated absences payable	55,514
Decrease in:	
Government grants and contracts receivable	133,846
Accrued payroll and employee benefits	(98,217)
Student loans receivable	330,378
Net cash used for operating activities	\$ (18,653,632)
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and cash equivalents	\$ 1,764,822
Investments	8,944,783
Restricted assets:	
Cash and cash equivalents	12,414
Investments	463,318
Total cash and cash equivalents, June 30, 2008	\$ 11,185,337

See accompanying notes to financial statements.

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements
June 30, 2008**

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, 2008, the Foundation distributed \$22,302 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 - Continued
June 30, 2008**

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 and state appropriations, 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 - Continued
June 30, 2008**

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, 2008**

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, 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 - Continued
June 30, 2008**

Note 2 – Deposits and Investments - Continued

At June 30, 2008, 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	\$ 10,669	
Cash in bank	1,754,153	
Restricted cash	12,414	
Investment at fair value:		
Held by Navajo County Treasurer		\$ 5,614,804
Investments with State Treasurer’s pool		3,329,979
Restricted investment with State Treasurer		463,318
Total	\$ 1,777,236	\$ 9,408,101

Deposits: At June 30, 2008, the carrying amount of the District’s cash in bank was \$1,766,567 with \$12,414 being restricted funds and the bank balance was \$2,094,828. The District currently does not have a deposit policy for custodial credit risk.

Investments: At June 30, 2008, the District’s investments consisted of the following:

	Weighted Average Maturity	Fair Value
County Treasurer’s investment pool	22.8 months	\$ 5,614,804
State Treasurer’s investment pool 5	1.5 months	3,793,297
Total		\$ 9,408,101

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, 2008**

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, 2008, 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 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, 2008, was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 809,291	\$ -	\$ 100,000	\$ 709,291
Construction in progress (estimated cost to complete \$ 231,191)	115,492	1,474,498	-	1,589,990
<i>Total capital assets not being depreciated</i>	<u>924,783</u>	<u>1,474,498</u>	<u>100,000</u>	<u>2,299,281</u>
Capital assets being depreciated:				
Buildings	32,686,501	22,999	1,585,460	31,124,040
Equipment	3,111,324	1,815,015	257,990	4,668,349
Improvements other than buildings	4,979,602	-	-	4,979,602
Library books	594,738	51,478	35,928	610,288
<i>Total capital assets being depreciated</i>	<u>41,372,165</u>	<u>1,889,492</u>	<u>1,879,378</u>	<u>41,382,279</u>
Less accumulated depreciation for:				
Buildings	6,055,131	728,435	717,150	6,066,416
Equipment	2,101,253	1,291,247	229,415	3,163,085
Improvements other than buildings	1,474,352	124,490	-	1,598,842
Library books	303,406	51,813	35,928	319,291
<i>Total accumulated depreciation</i>	<u>9,934,142</u>	<u>2,195,985</u>	<u>982,493</u>	<u>11,147,634</u>
Total capital assets being depreciated, net	<u>31,438,023</u>	<u>(306,493)</u>	<u>896,885</u>	<u>30,234,645</u>
Capital assets, net	<u>\$ 32,362,806</u>	<u>\$ 1,168,005</u>	<u>\$ 996,885</u>	<u>\$ 32,533,926</u>

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2008**

Note 4 – Long-Term Liabilities

The following schedule details the District’s long-term liability and obligation activity for the year ended June 30, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Due within one year</u>
Compensated absences payable	\$ 271,303	\$ 344,208	\$ 288,695	\$ 326,816	\$ 245,082
General obligation refunding bonds payable	\$ 3,165,000	\$ -	\$ 1,560,000	\$ 1,605,000	\$ 1,605,000
Certificates of participation payable	455,000	-	220,000	235,000	235,000
Installment purchase contract payable	39,446	-	39,446	-	-
Total long-term debt	<u>\$ 3,659,446</u>	<u>\$ -</u>	<u>\$ 1,819,446</u>	<u>\$ 1,840,000</u>	<u>\$ 1,840,000</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, 2008, \$2,840,000 of bonds outstanding is considered defeased.

Bonds outstanding at June 30, 2008, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rate</u>	<u>Outstanding Principal</u>
Refunding bonds, Series 2003	<u>\$ 9,015,000</u>	2008 – 09	3.5%	<u>\$ 1,605,000</u>

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2008**

Note 4 – Long-Term Liabilities - Continued

The following schedule details debt service requirements to maturity for the District’s bonds payable at June 30, 2008:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2009	\$ 1,605,000	\$ 56,175
Total	\$ 1,605,000	\$ 56,175

Certificates of participation – In April of 1994, the District issued \$2,410,000 in certificates of participation with an average interest rate of 6.17 percent. The certificates are generally callable with interest payable semiannually. Of the total proceeds, \$1,500,000 was used to construct a classroom building in Show Low, Arizona, and the remaining \$910,000 was obligated to advance refund outstanding series 1990 revenue bonds by placing it in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District’s financial statements. At June 30, 2008, \$515,000 of defeased revenue bonds is outstanding.

Certificates outstanding at June 30, 2008, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rate	Outstanding Principal
Certificates of participation, Series 1994	\$ 2,410,000	2008 – 09	6.55%	\$ 235,000

The following schedule details debt service requirements to maturity for the District’s certificates of participation payable at June 30, 2008:

Year Ending June 30,	Certificates of Participation	
	Principal	Interest
2009	\$ 235,000	\$ 7,696
Total	\$ 235,000	\$ 7,696

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2008**

Note 5 – Risk Management

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

The District also carries commercial insurance for other risks of loss, including workers' compensation, accidental death and dismemberment for students and employees, employee travel, and extended reporting for errors and omissions. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

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

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2008**

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.

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, 2008, active plan members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 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 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 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,			
2008	\$ 880,719	\$ 114,876	\$ 54,703
2007	755,475	105,066	50,031
2006	576,394	103,455	49,264

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2008**

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	\$ 19,258,989
Contract services	2,197,358
Communications and utilities	1,530,845
Depreciation	2,195,985
Supplies and other services	1,562,855
Scholarships	630,161
Other	471,627
	<hr/>
Total	\$ 27,847,820

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, 2008**

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, 2008, is as follows:

Checking	\$ 8,398
Money market	7,996
Savings	<u>45,376</u>
	<u>\$ 61,770</u>

**Navajo County Community College District
(Northland Pioneer College)
Notes to Financial Statements - Continued
June 30, 2008**

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, 2008, the certificates of deposit totaled \$87,081. Real estate totaled \$18,000 as of June 30, 2008. 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 1.88% to 4.4% for the year ended June 30, 2008.

SUPPLEMENTARY INFORMATION

Navajo County Community College District
(Northland Pioneer College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

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	\$ 39,999
<i>Passed through Arizona Department of Commerce</i>			
WIA Pilots, Demonstration, and Research Projects	17.261	2IBM8671	66,013
<i>Passed through Arizona Department of Education</i>			
Adult Education - WIA Incentive Grants Section 503	17.267	08FAEAED-870595-07A	60,341
<i>Total U.S. Department of Labor</i>			<u>166,353</u>
U.S. Small Business Administration			
<i>Passed through Maricopa County Community College District</i>			
Small Business Development Centers	59.037	7-603001Z-0003-15	96,849
U.S. Department of Education			
<i>Student Financial Assistance Cluster</i>			
Federal Supplemental Educational Opportunity Grants	84.007		66,000
Federal Work-Study Program	84.033		109,806
Federal Pell Grant Program	84.063		1,703,488
Academic Competitiveness Grants	84.375		6,275
<i>Total Student Financial Assistance Cluster</i>			<u>1,885,569</u>
<i>Passed through the Arizona Department of Education:</i>			
Adult Education - State Grant Program	84.002A	08FAEADL-870595-03A	25,000
Adult Education - State Grant Program	84.002A	08FAEABE-870595-06A	332,876
Adult Education - ASE Reframing Pilot	84.002	08FAEARP-870595-08A	82,966
<i>Total Adult Education</i>			<u>440,842</u>
Vocational Education - Basic Grants to States	84.048	08FCTDBG-870595-01A	304,300
Tech-Prep Education	84.243	08FCTDTP-870595-02A	118,077
<i>Total Passed through the Arizona Department of Education</i>			<u>863,219</u>
<i>Passed through Arizona Commission for Postsecondary Education:</i>			
Special Leveraging Educational Assistance Partnership	84.069	208PE310	13,268
Leveraging Educational Assistance Partnership	84.069	208PE310	55,599
<i>Total Leveraging Educational Assistance Partnership</i>			<u>68,867</u>
<i>Total U.S. Department of Education</i>			<u>2,817,655</u>
Total Expenditures of Federal Awards			<u>\$ 3,080,857</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, 2008**

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 2008 *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, 2008.



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

The Auditor General of the State of Arizona

The Governing Board of
Navajo County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Navajo County Community College District as of and for the year ended June 30, 2008, which collectively comprise Navajo County Community College District's basic financial statements and have issued our report thereon dated October 24, 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. 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 discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting that are reported separately by those auditors.

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 District'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 financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 08-1 and 08-2 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 the 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 08-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Navajo County Community College 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*.

We also noted certain additional matters that we reported to management of Navajo County Community College District in a separate letter dated October 24, 2008.

Navajo County Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Navajo County Community College 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, management, 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.
Certified Public Accountants

October 24, 2008



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

The Auditor General of the State of Arizona

The Governing Board of
Navajo County Community College District

Compliance

We have audited the compliance of Navajo County Community College District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Navajo County Community College District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Navajo County Community College District's management. Our responsibility is to express an opinion on Navajo County Community College District's compliance based on our audit.

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

In our opinion, Navajo County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying Schedule of Findings and Questioned Costs as items 08-3 and 08-4.

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.

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

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. We consider items 08-3 and 08-4 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

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. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Navajo County Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Navajo County Community College 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, management, 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.
Certified Public Accountants

October 24, 2008

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

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 no

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)? X yes 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? X yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.002	Adult Education – ASE Reframing Pilot
84.002A	Adult Education – State Grant Program
	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

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, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS

08-1 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

As a result of the failure to reconcile timely and properly, cash recorded in the District's accounting records was misstated by amounts that were not significant to the financial statements.

CAUSE

The District has not been adequately staffed 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. New controls have been developed and will be implemented in the coming year 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, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Concl'd)

08-2 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 control 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.

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. The District worked with the auditors to ensure the financial statements were prepared in accordance with GAAP.

CAUSE

The District has not been adequately staffed due to turnover. This resulted in having limited resources and/or personnel 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.

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 has designed effective internal controls over financial reporting at the financial statement level. These controls will be implemented in the coming year.

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF EDUCATION

Finding Number: 08-3

Program Name: Student Financial Assistance Cluster

Pass-Through Agency: Direct Program

Questioned Cost: N/A

CFDA Number: 84.007, 84.033,
84.063, 84.375

Grantor Number: N/A

CONDITION/CONTEXT

For one of 40 students reviewed receiving financial aid, the student was not in good standing and was therefore not eligible to receive financial aid in the spring semester of 2008. The District did repay the monies disbursed.

CRITERIA

According to CFR 668.32, reviewing students' eligibility prior to disbursing financial assistance will ensure that only eligible students receive financial assistance.

EFFECT

The District disbursed financial assistance monies to ineligible students.

CAUSE

The College was training new staff to review student's eligibility for financial assistance.

RECOMMENDATION

Each student receiving financial aid should be reviewed before the start of a new semester to ensure proper eligibility requirements are met prior to receiving financial assistance.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The College will provide additional training for the employees that are determining the eligibility for financial aid. The College will also have a supervisor review the students' financial aid records.

Contact Person: Tad Spader
Anticipated Completion Date: June 30, 2009

**NAVAJO COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concl'd)

U.S. DEPARTMENT OF EDUCATION

Finding Number: 08-4

Program Name: Adult Education – State Grant Program,
Adult Education – ASE Reframing Pilot

Pass-Through Agency: Arizona Department of Education

Questioned Cost: Unknown

CFDA Number: 84.002A, 84.002

Grantor Number: 08FAEADL-
870595-03A, 08FAEABE-870595-
06A, 08FAEARP-870595-08A

CONDITION/CONTEXT

For 27 of 40 payroll selections, time and effort documentation was not adequately maintained.

CRITERIA

According to Office of Management and Budget (OMB) Circular A-87, employees paid from a single federal fund must submit semi-annual statements of certification, signed by employee and supervisor. In addition, employees paid from more than one federal fund must submit monthly activity reports, signed by employee and supervisor.

EFFECT

The District did not maintain proper documentation of time worked in the Federal program.

CAUSE

The employees associated with the Adult Education grant were new to the reporting requirement for submission of the time and effort documentation.

RECOMMENDATION

The District should ensure that all employees paid from Federal funds document the distribution of time worked in Federal programs as required by Federal guidelines.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The College will provide training for the employees involved in the submission of the time and effort documentation. The College will also have a supervisor review the submission.

Contact Person: Tad Spader
Anticipated Completion Date: June 30, 2009