

**REPORT  
 HIGHLIGHTS**  
 SINGLE AUDIT

**Subject**

The District is responsible for preparing financial statements, complying with federal and state laws, and maintaining strong internal controls over compliance and financial reporting. As the auditors, our job is to determine whether the District has met its responsibilities. The District's Single Audit Reporting Package includes our report on the District's financial statements including its Schedule of Expenditures of Federal Awards, and our reports on the District's compliance and internal control.

**Our Conclusion**

The information in the District's financial statements is fairly stated in all material respects and the financial statements can be relied upon. The District also maintained adequate internal controls over financial reporting with one exception, and over federal compliance, and complied with federal program requirements for the programs tested. Specifically, the report recommends that the District separate cash-handling and recording responsibilities among employees to safeguard cash.



2002

Year Ended June 30, 2002

## New Standards Change the Focus of Financial Reporting

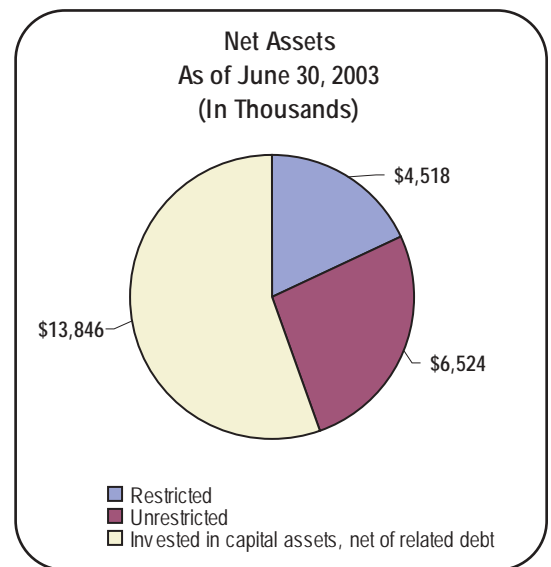
During fiscal year 2002, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. This Statement establishes new external financial reporting standards for public colleges and universities.

GASB Statement No. 35 requires the District to present financial statements on a consolidated basis to focus on the District as a whole; previously, financial statements focused on the accountability of individual fund groups. The new standards require three basic financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows.

### Statement of Net Assets

The Statement of Net Assets reports all assets and liabilities using the accrual basis of accounting, which is similar to the accounting that most private-sector institutions use. Net assets, the difference between assets and liabilities, is one way to measure the District's financial health. Net assets include three major categories. The first category—invested in capital assets, net of related debt—shows the District's equity in property, plant, and equipment.

The next category—restricted net assets—shows the net resources available for certain district expenses. These net assets must be used for purposes determined by donors and external entities that have placed purpose restrictions on the use of those resources. The third category—unrestricted net assets—are net resources available to the District to fund general operations. The chart below illustrates the components of the District's net assets as of June 30, 2002.



## Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the District's operating results, as well as nonoperating revenues and expenses. Revenues and expenses are classified as operating if they relate to the District's primary activities, such as instruction and student services. All other revenues and expenses, such as state

appropriations, property tax revenues, and interest expense on debt, are considered nonoperating, with one exception. Capital appropriations are reported separately following nonoperating revenues and expenses. The summaries below present the District's revenues and expenses for the year ended June 30, 2002.

| Revenues<br>For the Year Ended June 30, 2002<br>(In Thousands) |                 |
|----------------------------------------------------------------|-----------------|
| <b>Operating revenues:</b>                                     |                 |
| Tuition and fees                                               | \$ 1,989        |
| Government grants and contracts                                | 3,531           |
| Private grants and contracts                                   | 207             |
| Bookstore income                                               | 601             |
| Dormitory rentals and fees                                     | 46              |
| Other                                                          | <u>135</u>      |
| Total operating revenues                                       | <u>6,509</u>    |
| <b>Nonoperating revenues:</b>                                  |                 |
| Property taxes                                                 | 7,721           |
| State appropriations                                           | 5,463           |
| Share of state sales taxes                                     | 1,403           |
| Investment income                                              | <u>347</u>      |
| Total nonoperating revenues                                    | <u>14,934</u>   |
| Capital appropriations                                         | <u>409</u>      |
| Total revenues                                                 | <u>\$21,852</u> |

| Expenses<br>For the Year Ended June 30, 2002<br>(In Thousands) |                 |
|----------------------------------------------------------------|-----------------|
| <b>Operating expenses:</b>                                     |                 |
| Educational and general:                                       |                 |
| Instruction                                                    | \$ 6,329        |
| Public service                                                 | 68              |
| Academic support                                               | 690             |
| Student services                                               | 3,148           |
| Institutional support                                          | 4,906           |
| Operation and maintenance of plant                             | 1,311           |
| Scholarships                                                   | 600             |
| Auxiliary enterprises                                          | 1,113           |
| Depreciation                                                   | <u>805</u>      |
| Total operating expenses                                       | <u>18,970</u>   |
| <b>Nonoperating expenses:</b>                                  |                 |
| Interest expense on debt                                       | <u>644</u>      |
| Total expenses                                                 | <u>\$19,614</u> |

## Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement helps users assess the District's ability to generate net cash flows to meet its obligations as they come due, and the need for external financing. The summary to the right shows the net cash flows from each of the District's major activities.

| Cash Flows<br>For the Year Ended June 30, 2002<br>(In Thousands) |                 |
|------------------------------------------------------------------|-----------------|
| <b>Cash flows from:</b>                                          |                 |
| Operating activities                                             | \$(11,671)      |
| Noncapital financing activities                                  | 12,011          |
| Capital and related financing activities                         | (1,563)         |
| Investing activities                                             | <u>347</u>      |
| Net decrease in cash                                             | <u>\$ (876)</u> |

## The District Needs to Better Prepare for Implementation of New Accounting Standards

When the District prepared its financial statements using the new reporting model, auditors noted significant deficiencies that took the District months to correct. The delays were primarily due to district employees not knowing how to obtain certain information from the District's accounting records to comply with the new reporting requirements. As a result, these problems delayed the issuance of the District's Single Audit Reporting Package for the year ended June 30, 2002, and required significant effort by auditors to assist the District in adjusting its financial statements.

To help ensure that financial statements are prepared accurately and issued in a timely manner, the District should allocate resources to:

- Research all accounting and reporting requirements.
- Obtain information from the accounting system necessary for financial statement preparation.
- Establish a process for obtaining information not readily available from the accounting system necessary for financial statement preparation.
- Establish a process for compiling the information and preparing financial statements and notes, including assigned employees and completion dates.
- Have an employee who did not prepare the financial statements review them and the accompanying notes.

## The District Spent \$2.9 Million of Federal Monies

The District spent \$2.9 million of federal monies and additional required state matching monies this past year for 12 programs. The largest federal grants were for student financial assistance. Under the guidelines established by the Single Audit Act, auditors tested the following federal programs, collectively referred to as the Student Financial Assistance Program Cluster:

- Federal Supplemental Educational Opportunity Grants
- Federal Work-Study Program
- Federal Pell Grant Program

### The Single Audit Fact Sheet

- Two reportable conditions in financial reporting internal controls, one of these was considered a material internal control weakness.
- No weaknesses in federal compliance internal controls.
- No violations of federal compliance requirements.
- No program costs questioned as a result of our audit.



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Contact person for  
this report:  
Rita Seto

**Navajo County Community  
College District**  
(Northland Pioneer College)

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Year Ended June 30, 2002