



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

# Navajo County Community College District

(Northland Pioneer College)

Year Ended June 30, 2013

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**Debra K. Davenport**  
Auditor General

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Navajo County Community College District  
(Northland Pioneer College)  
Single Audit Reporting Package  
Year Ended June 30, 2013

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

## Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of  
Navajo County Community College District

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Navajo County Community College District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports 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 from material misstatement. The financial statements of the aggregate discretely presented component units were not audited by the other auditors in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal

control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the reports 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 aggregate discretely presented component units of Navajo County Community College District as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

As described in footnote 1 on the Statement of Activities-Component Units and Note 1 to the financial statements, beginning in fiscal year 2013, the Northeast Arizona Training Center is reported as a discretely presented component unit of the District, which represents a change in the District's reporting entity. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages i through viii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information—Schedule of Expenditures of Federal Awards*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Debbie Davenport  
Auditor General

November 22, 2013

Navajo County Community College District  
(Northland Pioneer College)  
Management's Discussion and Analysis  
Year Ended June 30, 2013

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, 2013. Please read it in conjunction with the financial statements, which immediately follow.

## Basic Financial Statements

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

The *Statement of Net Position* reflects the financial position of the District at June 30, 2013. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net position. Net position 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 Position* reflects the results of operations and other changes for the year ended June 30, 2013. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net position amount to the ending net position amount, which is shown on the *Statement of Net Position* described above.

The *Statement of Cash Flows* reflects the inflows and outflows of cash and cash equivalents for the year ended June 30, 2013. 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 Position* 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 Position* described above.

## Financial Highlights and Analysis

Consistent with its mission, the District creates, supports and promotes lifelong learning. Major funding sources supporting all functions include property taxes, state appropriations, government grants and contracts, and tuition and fees. The District may exercise primary and secondary property tax levy authority for generation of funds used for operating, capital equipment, and debt retirement purposes.

The condensed financial information below highlights the main categories of the *Statement of Net Position*. 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 payable, deferred revenues, and accrued payroll and employee benefits. Net position is 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,

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the District holds resources that external parties have restricted for specific programs or purposes. The remaining net position is unrestricted but is dedicated to the District's primary mission. Over time, increases or decreases in net position 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, 2013 and June 30, 2012:

**Condensed Statement of Net Position—Primary Government**  
**Year Ended June 30**

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
<b>Assets:</b>			
Current assets	\$39,408,725	\$41,337,582	-5%
Noncurrent assets, other than capital assets	799,138	880,298	-9%
Capital assets, net	<u>38,701,227</u>	<u>33,030,762</u>	17%
Total assets	<u>78,909,090</u>	<u>75,248,642</u>	5%
<b>Liabilities:</b>			
Other liabilities	1,757,716	2,745,030	-36%
Long-term liabilities	<u>450,164</u>	<u>348,345</u>	29%
Total liabilities	<u>2,207,880</u>	<u>3,093,375</u>	-29%
<b>Net Position</b>			
Net investment in capital assets	38,626,891	33,030,762	17%
Restricted	691,628	735,512	-6%
Unrestricted	<u>37,382,691</u>	<u>38,388,993</u>	-3%
Total net position	<u>\$76,701,210</u>	<u>\$72,155,267</u>	6%

Total assets increased \$3.7 million, or 5 percent, related to current assets and net capital assets. Current assets decreased \$1.9 million related to a decline in cash and investments used to help fund capital projects. Net capital assets increased by \$5.7 million related to the construction of a new Skills Center in Holbrook, completion of a major parking lot expansion at the Show Low campus, and improvements at various locations.

Total liabilities decreased \$885,000, or 29 percent, driven by other liabilities that decreased \$987,000 related to timing of payments for accounts payable and accrued payroll last year.



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Total net position increased by \$4.5 million related to \$5.6 million net investment in capital assets offset by a decrease of \$1 million in unrestricted net position. The District previously committed to using unrestricted net position to support capital needs over the next several years, dedicating \$26 million for fiscal years 2013, 2014, and 2015. While the District plans to use portions of its unrestricted net position to allow it to provide consistent quality of services to students and communities, regular evaluation of financial resources will continue during the uncertain economic climate.

The condensed financial information on the next page highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Position*. Generally, revenues generated by the District from exchange transactions are considered operating revenues. Other revenues such as state appropriations, property taxes, and certain government grants are considered nonoperating revenues. In compliance with U.S. generally accepted accounting principles, scholarships applied to tuition and fees are recorded as an offset to operating revenues instead of being reported as an expense to the District.

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

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

Navajo County Community College District  
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Year Ended June 30, 2013

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

	<u>2013</u>	<u>2012 (As adjusted*)</u>	<u>% Change</u>
<b>Revenues:</b>			
Operating			
Tuition and fees, net	\$ 2,466,640	\$ 2,690,260	-8%
Government contracts	2,969,273	2,638,049	13%
Bookstore income, net	42,460	33,564	27%
Other	<u>379,831</u>	<u>291,648</u>	30%
Total operating revenues	<u>5,858,204</u>	<u>5,653,521</u>	4%
Nonoperating			
Property taxes	13,180,294	12,703,703	4%
State appropriations	7,059,800	8,181,800	-14%
Government grants	5,018,111	5,502,290	-9%
Private grants	325,919	360,370	-10%
Share of state sales taxes	545,682	372,308	47%
Investment earnings	170,717	136,283	25%
Gain (loss) on disposal of capital assets	<u>18,627</u>	<u>(180,305)</u>	-110%
Total nonoperating revenues	<u>26,319,150</u>	<u>27,076,449</u>	-3%
Total revenues	<u>32,177,354</u>	<u>32,729,970</u>	-2%
<b>Expenses:</b>			
Operating	27,631,411	26,984,441	2%
Nonoperating	<u>6,854</u>	<u>6,854</u>	-100%
Total expenses	<u>27,631,411</u>	<u>26,991,295</u>	2%
Increase in net position	4,545,943	5,738,675	-21%
Total net assets, July 1	<u>72,155,267</u>	<u>66,416,592</u>	9%
Total net assets, June 30	<u>\$76,701,210</u>	<u>\$72,155,267</u>	6%

\* The 2012 Private grants were adjusted to reclassify the amounts from operating to nonoperating revenue.

Operating revenues increased \$205,000, or 4 percent. Tuition and fees decreased by \$224,000, or 8 percent, related to declining enrollment of \$116,000 and an increase in scholarship allowances of \$107,000, which reduces net tuition and fees. The increase in scholarship allowance is driven primarily by inclusion of tuition and fee waivers that were not previously identified as scholarship allowances. Government contracts increased \$331,000 related to contracts to provide educational services to Apache County and Northern Arizona Vocational Institute of Technology (NAVIT); these increased \$223,000 and \$156,000, respectively. Apache County prepaid a portion of its contract in fiscal year 2012; that amount was shown as an offset to revenues causing a variance compared to the current year of \$232,000. NAVIT increased \$156,000 related to increased rental costs for instructional facilities. Other revenues increased \$88,000 driven by recovery of bad debt associated with the State Treasurer's investment pool, which had been previously written off for \$52,000.

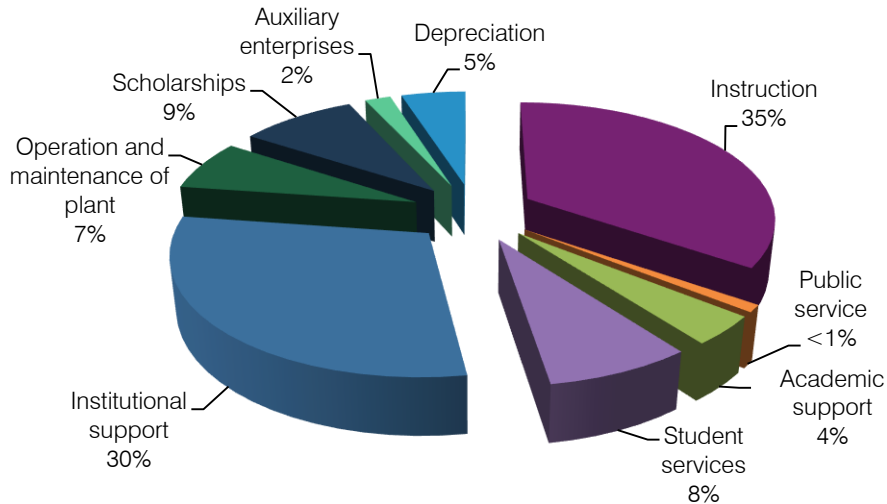
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Nonoperating revenues decreased \$757,000, or 3 percent. State appropriations, which include operating state aid and equalization aid, decreased \$1.1 million, or 14 percent, compared to the prior year and is related primarily to equalization funding. Although operating state aid was nearly level, it is still below historical values. The \$173,000 increase in the share of state sales taxes is driven primarily by a change in the timing of the recognition of this income. This change resulted in the recognition of 14 months' income in the current fiscal year. The increase in property taxes was related to the District's decision to set the tax levy at the maximum; a practice the District will not be able to maintain in the upcoming year because of concerns of increasing taxpayer opposition. Government grants decreased \$484,000 driven primarily by a decrease in the Federal Pell Grant Program of \$727,000 offset by an increase of \$536,000 related to a new Department of Labor (DOL) grant. The decrease in Pell awards is related to declining student enrollment and growing constraints of new eligibility requirements for students. The DOL awarded a Trade Adjustment Assistance Community College and Career Training Grants (TAACCCT) to the Arizona Sun Corridor Get Into Energy Consortium, made up of five Arizona community colleges, including the District. The District will receive nearly \$2 million for the period October 2012 to September 2015, which will be used to establish a mechatronics program. Mechatronics combines mechanical technology with electrical and electronic circuitry. The program is designed to prepare the students for careers in a number of diversified manufacturing and energy fields.

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
<b>Operating Expenses</b>			
Educational and general:			
Instruction	\$ 9,660,102	\$ 8,827,606	9%
Public service	29,387	25,647	15%
Academic support	1,047,037	1,009,880	4%
Student services	2,151,538	2,015,021	7%
Institutional support	8,308,926	8,481,782	-2%
Operation and maintenance of plant	1,867,890	1,758,007	6%
Scholarships	2,570,647	3,094,923	-17%
Auxiliary enterprises	451,470	404,767	12%
Depreciation	<u>1,544,414</u>	<u>1,366,808</u>	13%
Total operating expenses	<u>27,631,411</u>	<u>26,984,441</u>	2%
<b>Nonoperating Expenses</b>			
Interest expense	<u>                    </u>	<u>6,854</u>	-100%
Total nonoperating expense	<u>                    </u>	<u>6,854</u>	-100%
Total expenses	<u>\$27,631,411</u>	<u>\$26,991,295</u>	2%

Navajo County Community College District  
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 Management's Discussion and Analysis  
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**2013 Operating Expenses by Category**



Operating expenses increased \$647,000, or 2 percent. The District continues to focus on maintaining comprehensive and quality services to the students and communities in its service area, and as a result both instruction and student services increased for a combined total of \$969,000, or 9 percent. Scholarships decreased \$524,000 driven primarily by a decrease in federal financial aid awards, specifically the Federal Pell Grant Program, which has also impacted student enrollment.

### Capital Assets and Debt Administration

Capital assets are defined as those items costing over \$5,000 and that have an estimated useful life of more than 1 year.

During the last 2 fiscal years, the District has set aside a portion of its unrestricted net position to address capital funding needs. It has focused on maintenance of facilities that had been deferred for several years and has pursued capital acquisitions and new construction to meet the demands of its students and the communities it serves.

- In fiscal year 2012, the District spent \$2.3 million on deferred maintenance, repairs to existing buildings and parking lots, and development of a Master Facilities Plan to assess future needs. Another \$1.9 million was used to address upgrades to its enterprise resource planning (ERP) system and replace its telephone system and other network infrastructure. Of the \$4.2 million spent on facilities and technology infrastructure needs, \$2.8 million was identified as capital assets based on the definition above: \$2 million related to facilities and \$800,000 related to technology infrastructure.

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- In fiscal year 2013, the District started construction of the 26,600 square-foot Skills Center located on the Painted Desert Campus in Holbrook and has spent \$3.6 million. An estimated \$1.6 million will be required to complete the building. Construction of the building started in October 2012 and is expected to be completed in December 2013. The District also completed a major parking lot expansion at the White Mountain Campus in Show Low for \$2.4 million. It spent \$1.2 million on equipment for program development and continued enhancement of distant learning technology.
- Over the next 3 years, the District plans to spend \$26 million on major capital acquisitions and new construction while continuing to address deferred maintenance. The construction of new facilities at the White Mountain Campus in Show Low is included in the plans, but decisions have not been finalized.

Additional information on the District's capital assets can be found in Note 3 to the basic financial statements.

The District currently has no long-term debt other than compensated absences and capital leases and does not anticipate acquiring new debt.

### Current Factors Having Probable Future Financial Significance

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

The District historically set the property tax levy at the maximum rate allowed by statute. Due to concerns of growing taxpayer opposition and the sluggish economic recovery, the District set the property tax levy below the maximum rate allowed by statute for fiscal year 2014. It is unclear what impact this will have to the District in future years and whether or not assessed property taxes will become more difficult to collect.

State appropriations used to support the District's operations decreased by 14 percent for fiscal year 2013 from fiscal year 2012. The District received equalization aid of \$5,370,100 in fiscal year 2013, which was a decrease of 17 percent from the prior year. Future equalization aid funding is expected to decline as a result of decreased property values throughout rural Arizona. STEM funding was approved for fiscal year 2014, but is significantly lower than the capital state aid funding that has not been provided to community colleges for several years. State funding is expected to be in transition as the funding mechanisms for community colleges in the State continue to be reevaluated. Performance-based funding has been discussed at a variety of governance levels and is expected to be implemented by fiscal year 2015. The impact to the District is unknown, but the potential for an increase in state appropriations to the District is low.

Funding from external sources, including federal and local grants and contracts along with community and business partnerships, are important to the District. The District continuously pursues additional grant and partnership opportunities.

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- The District is part of the Arizona Sun Corridor Get Into Energy Consortium along with four other community colleges, Estrella Mountain, Chandler-Gilbert, Pima, and Yavapai. The Consortium received a \$13.5 million grant from the DOL to develop programs to meet the State's energy industry workforce needs.
- The District also entered into an unprecedented agreement to improve workforce development among populations living along rural stretches of Interstate 40 (I-40) with two other community colleges, Coconino and Mohave. The I-40 Corridor Coordinating Council will provide a cooperative higher education network to invest in shared comprehensive new programs and equipment. The partnership will enhance education and job opportunities throughout the three college districts.

The District continuously evaluates its tuition and fee structure. The District is limited in the amount of increases it can implement based on the demographics of its service area. The District's service area covers approximately 21,158 square miles and is one of the poorest, most remote, and least populated of both Arizona and the United States. In-state tuition increased 3 percent, up \$2 from \$60 to \$62 per credit hour in fiscal year 2013, and for fiscal year 2014 it was increased an additional 3 percent to \$64. The District continues to offer one of the lowest tuition rates in the State.

## Requests for Information

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

Separately issued financial statements are issued for Northland Pioneer College Foundation and Northeast Arizona Training Center, Inc., discretely presented component units of Navajo County Community College District. Complete financial statements for both component units can be obtained from Northland Pioneer College, PO Box 610, Holbrook, AZ 86025.

Navajo County Community College District  
(Northland Pioneer College)  
Statement of Net Position—Primary Government  
June 30, 2013

	<u>Business-Type Activities</u>
<b>Assets</b>	
Current assets:	
Cash and investments	\$ 35,751,154
Receivables (net of allowances for uncollectibles):	
Accounts	1,848,670
Property taxes	529,545
Student, current portion	775,473
Inventories	47,710
Prepaid items	456,173
Total current assets	<u>39,408,725</u>
Noncurrent assets:	
Restricted assets:	
Cash and investments	691,648
Property taxes receivable (net of allowances of \$100,000)	22,349
Student receivable (net of allowances of \$1,106,054)	85,141
Capital assets, not being depreciated	4,381,906
Capital assets, being depreciated, net	34,319,321
Total noncurrent assets	<u>39,500,365</u>
Total assets	<u>78,909,090</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	774,041
Accrued payroll and employee benefits	312,453
Deferred revenues	671,222
Current portion of compensated absences payable	281,871
Current portion of capital lease payable	16,591
Total current liabilities	<u>2,056,178</u>
Noncurrent liabilities:	
Compensated absences payable	93,957
Capital lease payable	57,745
Total noncurrent liabilities	<u>151,702</u>
Total liabilities	<u>2,207,880</u>

(Continued)

See accompanying notes to financial statements.

Navajo County Community College District  
(Northland Pioneer College)  
Statement of Net Position—Primary Government  
June 30, 2013  
(Concluded)

	<b><u>Business-Type Activities</u></b>
<b>Net Position</b>	
Net investment in capital assets	\$ 38,626,891
Restricted:	
Nonexpendable—endowments	12,414
Expendable:	
Scholarships, grants, and contracts	238,120
Capital projects	441,094
Unrestricted	<u>37,382,691</u>
 Total net position	 <u><u>\$ 76,701,210</u></u>

See accompanying notes to financial statements.



Navajo County Community College District  
(Northland Pioneer College)  
Statement of Financial Position—Component Units  
June 30, 2013

	<u>Northland Pioneer College Foundation</u>	<u>Northeast Arizona Training Center, Inc.</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 81,656	\$ 100,392	\$ 182,048
Restricted cash—savings	46,675		46,675
Accounts receivable	1,666	8,100	9,766
Investments:			
Marketable securities	356		356
Marketable securities—restricted	111,868		111,868
Real estate	8,000		8,000
Prepaid expense	7,348	3,313	10,661
Land and building, net of accumulated depreciation	<u>34,454</u>	<u>1,952,894</u>	<u>1,987,348</u>
Total assets	<u>\$ 292,023</u>	<u>\$ 2,064,699</u>	<u>\$ 2,356,722</u>
<b>Liabilities</b>			
Accounts payable	\$ 47,198		\$ 47,198
Accrued interest		\$ 8,925	8,925
Other current liabilities	37,470		37,470
Long-term obligations due within 1 year	<u>                    </u>	<u>25,000</u>	<u>25,000</u>
Total liabilities	<u>84,668</u>	<u>33,925</u>	<u>118,593</u>
Long-term debt	<u>                    </u>	<u>345,000</u>	<u>345,000</u>
Total liabilities	<u>84,668</u>	<u>378,925</u>	<u>463,593</u>
<b>Net Assets</b>			
Unrestricted	86,281	1,685,774	1,772,055
Temporarily restricted	55,110		55,110
Permanently restricted	<u>65,964</u>	<u>                    </u>	<u>65,964</u>
Total net assets	<u>207,355</u>	<u>1,685,774</u>	<u>1,893,129</u>
Total liabilities and net assets	<u>\$ 292,023</u>	<u>\$ 2,064,699</u>	<u>\$ 2,356,722</u>

See accompanying notes to financial statements.

Navajo County Community College District  
(Northland Pioneer College)  
Statement of Revenues, Expenses, and Changes in Net Position—Primary Government  
Year Ended June 30, 2013

	<b>Business-Type Activities</b>
Operating revenues:	
Tuition and fees, net of scholarship allowances of \$2,503,484	\$ 2,466,640
Government contracts	2,969,273
Bookstore income, net of scholarship allowances of \$37,555	42,460
Other sales and services	106,429
Other	273,402
Total operating revenues	5,858,204
Operating expenses:	
Educational and general:	
Instruction	9,660,102
Public service	29,387
Academic support	1,047,037
Student services	2,151,538
Institutional support	8,308,926
Operation and maintenance of plant	1,867,890
Scholarships	2,570,647
Auxiliary enterprises	451,470
Depreciation	1,544,414
Total operating expenses	27,631,411
Operating loss	(21,773,207)
Nonoperating revenues:	
Property taxes	13,180,294
State appropriations	7,059,800
Government grants	5,018,111
Private grants	325,919
Share of state sales taxes	545,682
Investment earnings	170,717
Gain on disposal of capital assets	18,627
Total nonoperating revenues	26,319,150
Increase in net position	4,545,943
Total net position, July 1, 2012	72,155,267
Total net position, June 30, 2013	\$ 76,701,210

See accompanying notes to financial statements.

Navajo County Community College District  
(Northland Pioneer College)  
Statement of Activities—Component Units  
Year Ended June 30, 2013

	<b>Northland Pioneer College Foundation</b>	<b>Northeast Arizona Training Center, Inc.</b>	<b>Total</b>
<b>Changes in Unrestricted Net Assets</b>			
Unrestricted support	\$ 13,800		\$ 13,800
Memberships and usage fees		\$ 31,285	31,285
Interest income	28	234	262
Rental income	54,728	8,100	62,828
Realized gain on investments	8		8
Unrealized gain on investments	40		40
Total unrestricted support	<u>68,604</u>	<u>39,619</u>	<u>108,223</u>
 Net assets released from restrictions	 3,985		 3,985
Total unrestricted revenues and support	<u>72,589</u>	<u>39,619</u>	<u>112,208</u>
 Expenses:			
Program services	47,268	193,961	241,229
Support services	22,349	11,427	33,776
Loss on sale of asset	3,500	901	4,401
Interest expense		18,350	18,350
Total expenses	<u>73,117</u>	<u>224,639</u>	<u>297,756</u>
Decrease in unrestricted net assets	<u>(528)</u>	<u>(185,020)</u>	<u>(185,548)</u>
 <b>Changes in Temporarily Restricted Net Assets</b>			
Contributions	2,500		2,500
Interest income	2,809		2,809
Realized gain on investments	2,359		2,359
Unrealized gain on investments	6,170		6,170
Net assets released from restrictions	17,624		17,624
Increase in temporarily restricted net assets	<u>31,462</u>		<u>31,462</u>
 <b>Changes in Permanently Restricted Net Assets</b>			
Contributions	5,000		5,000
Interest income	33		33
Realized gain on investments	28		28
Unrealized gain on investments	70		70
Net assets released from restrictions	(21,609)		(21,609)
Decrease in permanently restricted net assets	<u>(16,478)</u>		<u>(16,478)</u>
 Increase (decrease) in net assets	 14,456	 (185,020)	 (170,564)
 Net assets, beginning of year, as restated <sup>1</sup>	 <u>192,899</u>	 <u>1,870,794</u>	 <u>2,063,693</u>
Net assets, end of year	<u>\$207,355</u>	<u>\$1,685,774</u>	<u>\$1,893,129</u>

<sup>1</sup> The beginning net assets balance has been restated to include the Northeast Arizona Training Center, Inc. as a new component unit for 2013. See Notes 1 and 10 for additional information on the component units.

See accompanying notes to financial statements.

Navajo County Community College District  
(Northland Pioneer College)  
Statement of Cash Flows—Primary Government  
Year Ended June 30, 2013

	<b>Business-Type Activities</b>
Cash flows from operating activities:	
Tuition and fees	\$ 2,342,096
Government contracts	2,669,273
Bookstore receipts	42,460
Other receipts	379,831
Payments to suppliers and providers of goods and services	(6,774,830)
Payments for employee wages and benefits	(17,221,064)
Payments to students for scholarships and loans	<u>(2,570,845)</u>
Net cash used for operating activities	<u>(21,133,079)</u>
Cash flows from noncapital financing activities:	
Property taxes	13,193,976
State appropriations	7,059,800
Grants	5,018,111
Private grants	325,919
Share of state sales taxes	373,849
Deposits held in custody for others disbursed	<u>(40,504)</u>
Net cash provided by noncapital financing activities	<u>25,931,151</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	26,891
Purchase and construction of capital assets	<u>(7,148,809)</u>
Net cash used for capital and related financing activities	<u>(7,121,918)</u>
Cash flows from investing activities:	
Interest received on investments	<u>170,717</u>
Net cash provided by investing activities	<u>170,717</u>
Net decrease in cash and cash equivalents	(2,153,129)
Cash and cash equivalents, July 1, 2012	<u>38,595,931</u>
Cash and cash equivalents, June 30, 2013	<u><u>\$ 36,442,802</u></u>

(Continued)

See accompanying notes to financial statements.

Navajo County Community College District  
(Northland Pioneer College)  
Statement of Cash Flows—Primary Government  
Year Ended June 30, 2013  
(Concluded)

	<u>Business-Type Activities</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (21,773,207)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,544,414
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(449,290)
Compensated absences payable	27,483
Decrease in:	
Student receivable	412,790
Inventories	20,987
Prepaid items	30,554
Accounts payable	(249,533)
Accrued payroll and employee benefits	(309,235)
Deferred revenues	(388,042)
Net cash used for operating activities	<u>\$ (21,133,079)</u>
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Position:	
Cash and investments	\$ 35,751,154
Restricted assets:	
Cash and investments	691,648
Total cash and cash equivalents, June 30, 2013	<u>\$ 36,442,802</u>

See accompanying notes to financial statements.

Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2013

Note 1 - Summary of Significant Accounting Policies

Navajo County Community College District's accounting policies 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 units, the Northland Pioneer College Foundation (Foundation), and the Northeast Arizona Training Center, Inc. (NATC).

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 District's respective counterpart financial statements. For financial reporting purposes, only the Foundation's statements 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, 2013, the Foundation distributed \$11,825 to the District for both restricted and unrestricted purposes. Complete financial statements of the Foundation can be obtained from the Northland Pioneer College Foundation, PO Box 610, Holbrook, AZ 86025-0610.

NATC is a legally separate, tax-exempt organization. It acts primarily as a certified regional training center to meet the educational and testing needs of fire and law enforcement professionals in Northeast Arizona. The enabling legislation for NATC calls for the District to exercise operating control over NATC. Therefore, the voting members of NATC's Board of Directors are employees of the District and the District is able to significantly influence the programs, projects, activities or level of services provided by NATC. Consequently, NATC is considered a component unit of the District and is discretely presented in the District's financial statements.

Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2013

For financial reporting purposes, NATC follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. 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 NATC's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the District's respective counterpart financial statements. For financial reporting purposes, only NATC's statements 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. NATC has a June 30 year-end.

NATC's complete financial statements can be obtained from the Northeast Arizona Training Center, PO Box 610, Holbrook, AZ 86025-0610.

## B. Basis of Presentation and Accounting

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

A statement of net position provides information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net position is classified according to external donor restrictions or availability of assets to satisfy district obligations. Net investment in capital assets represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net position includes gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net position represents grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net position consists of all other resources, 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 position 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 position are reported, including capital contributions and additions to endowments. Operating revenues and expenses generally result from exchange transactions. Accordingly, revenues such as tuition and bookstore charges are considered to be operating revenues. Other revenues, such as property taxes, state appropriations, and government grants, are not generated from exchange transactions and are considered to be nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2013

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

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

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

### C. Cash and Investments

For the statement of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, investments in the State Treasurer's Local Government Investment Pool, and highly liquid investments. All investments are stated at fair value.

### D. Inventories

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

### E. Capital Assets

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

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:

	<b>Capitalization Threshold</b>	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Land	\$5,000	Not applicable	Not applicable
Buildings	5,000	Straight-line	10 – 40 years
Improvements other than buildings	5,000	Straight-line	20 – 40 years
Equipment	5,000	Straight-line	5 – 10 years
Library books	All	Straight-line	10 years



Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2013

## F. Investment Earnings

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

## G. Compensated Absences

Compensated absences payable consists of vacation 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 terminating 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 the District provides and the amount that is paid by the student or third parties making payments on the student's behalf. 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 in the statement of revenues, expenses, and changes in net position.

## 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 another's property 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.

**Deposits**—At June 30, 2013, the carrying amount of the District's deposits was \$1,816,615, and the bank balance was \$2,597,486. The District does not have a policy for custodial credit risk.

Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2013

**Investments**—The District’s investments at June 30, 2013, were as follows:

<b>Investment Type</b>	<b>Amount</b>
State Treasurer’s investment pool 5	\$14,510,443
County Treasurer’s investment pool	<u>20,110,634</u>
Total	<u>\$34,621,077</u>

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.

*Credit risk*—The District does not have a formal policy for credit risk. At June 30, 2013, credit risk for the District’s investments was as follows:

<b>Investment Type</b>	<b>Rating</b>	<b>Rating Agency</b>	<b>Amount</b>
State Treasurer’s investment pool 5	AAAf/S1+	Standard and Poor’s	\$14,510,443
County Treasurer’s investment pool	Unrated	Not applicable	<u>20,110,634</u>
Total			<u>\$34,621,077</u>

*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 an outside party’s possession. The District does not have a formal investment policy for custodial credit risk.

*Concentration of Credit Risk*—The District does not have a formal policy for concentration of credit risk.

*Interest Rate Risk*—The District does not have a formal policy for interest rate risk. At June 30, 2013, the District had the following investments in debt securities:

<b>Investment Type</b>	<b>Amount</b>	<b>Weighted Average Maturity</b>
State Treasurer’s investment pool 5	\$14,510,443	0.8 months
County Treasurer’s investment pool	<u>20,110,634</u>	41.4 months
Total	<u>\$34,621,077</u>	

A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Position follows:

Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2013

Cash, deposits, and investments:		Statement of Net Position:	
Cash on hand	\$ 5,110	Cash and investments	\$35,751,154
Amount of deposits	1,816,615	Restricted assets:	
Amount of investments	<u>34,621,077</u>	Cash and investments	<u>691,648</u>
Total	<u>\$36,442,802</u>	Total	<u>\$36,442,802</u>

### Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 709,291			\$ 709,291
Construction in progress	<u>1,759,614</u>	<u>\$6,103,277</u>	<u>\$4,190,276</u>	<u>3,672,615</u>
Total capital assets not being depreciated	<u>2,468,905</u>	<u>6,103,277</u>	<u>4,190,276</u>	<u>4,381,906</u>
Capital assets being depreciated:				
Buildings	32,249,075	1,774,778		34,023,853
Equipment	5,097,302	1,065,101	22,124	6,140,279
Improvements other than buildings	7,149,853	2,415,499		9,565,352
Library books	<u>605,303</u>	<u>54,764</u>	<u>60,178</u>	<u>599,889</u>
Total capital assets being depreciated	<u>45,101,533</u>	<u>5,310,142</u>	<u>82,302</u>	<u>50,329,373</u>
Less accumulated depreciation for:				
Buildings	\$ 9,130,685	\$ 780,130		\$ 9,910,815
Equipment	2,793,384	529,445	\$ 13,860	3,308,969
Improvements other than buildings	2,266,217	185,393		2,451,610
Library books	<u>349,390</u>	<u>49,446</u>	<u>60,178</u>	<u>338,658</u>
Total accumulated depreciation	<u>14,539,676</u>	<u>1,544,414</u>	<u>74,038</u>	<u>16,010,052</u>
Total capital assets being depreciated, net	<u>30,561,857</u>	<u>3,765,728</u>	<u>8,264</u>	<u>34,319,321</u>
Capital assets, net	<u>\$33,030,762</u>	<u>\$9,869,005</u>	<u>\$4,198,540</u>	<u>\$38,701,227</u>

### Note 4 - Construction and Commitments

The District had a major contractual commitment related to a capital project at June 30, 2013. At the Painted Desert Campus, located in Holbrook, the District committed to a skill center building to house several constructional and technical education division courses. At June 30, 2013, the District had spent \$3,659,000 on the project and had remaining contractual commitments with contractors of \$1,637,000. This project is being financed by unrestricted net position designated by the District Governing Board for these purposes.

Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2013

Note 5 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due within 1 year
Compensated absences payable	\$348,345	\$336,165	\$308,682	\$375,828	\$281,871
Capital leases payable		96,587	22,251	74,336	16,591
Total long-term liabilities	<u>\$348,345</u>	<u>\$432,752</u>	<u>\$330,933</u>	<u>\$450,164</u>	<u>\$298,462</u>

**Capital leases**—The District has acquired printing and duplicating equipment under the provisions of long-term lease agreements classified as a capital leases for accounting purposes because it provides for a bargain purchase option.

The carrying value of the assets acquired through these capital leases is \$96,587.

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2013

<u>Year ending June 30</u>	
2014	\$22,251
2015	22,251
2016	22,251
2017	<u>22,251</u>
Total minimum lease payments	89,004
Less amount representing interest	<u>14,668</u>
Present value of net minimum lease payments	<u>\$74,336</u>

Note 6 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with other Arizona community college districts and school districts in the Arizona School Risk Retention Trust, Inc. (Trust), 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 coverage limit for general liability is \$50 million with no deductible except for employer's liability, which is \$500,000. The coverage limit for professional liability is \$10 million with no deductible. The coverage limit for property insurance is \$49 million with a \$1,000 deductible. The coverage limit for automobile liability is \$10 million with no deductible. The coverage limit for commercial crime is \$1.5 million with a \$100 deductible.

Navajo County Community College District  
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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 exceeded commercial insurance coverage in one of the past 3 fiscal years. In the year ended June 30, 2011, the District paid additional expenses of \$12,805. There were no uninsured losses in the year ended June 30, 2013. The District reached its lifetime, no-fault limit on mold coverage for one campus in 2010. The no-fault mold coverage is limited to \$25,000 per campus and covers direct physical loss or damage caused by fungus, wet or dry rot, or bacteria, including the cost of removal and the cost for clearance testing. The limitation is for mold damage not linked to a specific occurrence. Property damage insurance continues to be available for occurrences reported within 30 days of the event.

The District participates with several local school districts in the Navajo County Schools Employee Benefit Trust (Trust). The District uses the Trust to manage risks of loss related to employee health and accident claims. The Trust is a public entity risk pool operating as a common risk management and insurance program for its member school districts. The Trust is funded by irrevocable contributions from the District for employee coverage and from employees for dependent coverage. The Trust, which is managed by a separate board of directors, allows the fund to be self funded, insured, or both. Additionally, if the Trust becomes insolvent, the District may 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 3 fiscal years.

#### Note 7 - Operating Leases

The District leases land, classroom and office space, information systems equipment, and vehicles under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases were \$232,701 for the year ended June 30, 2013. The operating leases have remaining noncancelable terms of 1 to 5 years and provide renewal options.

Navajo County Community College District  
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Of the current rental expenses, \$52,728 was paid to the Foundation. The nature of the relationship between the District and the Foundation is stated in Note 10. The District entered into an operating lease with the Foundation for a building and parking lot. The term of the lease began February 14, 2006, and continues to February 13, 2015. There is a step-down rental provision of 20 percent that began March 1, 2011, and continues each March 1 thereafter.

The future minimum payments required under the operating leases at June 30, 2013, were as follows:

Year ending June 30	
2014	\$332,479
2015	142,829
2016	123,951
2017	82,289
2018	<u>81,571</u>
Total minimum lease payments	<u>\$763,119</u>

#### Note 8 - 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 insurance premium benefit 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 is available on its Web site at [www.azasrs.gov](http://www.azasrs.gov), by writing the Arizona State Retirement System, 3300 N. Central Ave., PO Box 33910, Phoenix, AZ 85067-3910, or by calling (602) 240-2000 or 1-800-621-3778.

**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, 2013, active plan members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.9 percent for retirement and 0.24 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 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

Navajo County Community College District  
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The District's contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

Year ended June 30,	<b>Retirement Fund</b>	<b>Health Benefit Supplement Fund</b>	<b>Long-Term Disability Fund</b>
2013	\$1,156,519	\$73,340	\$27,076
2012	968,778	61,837	23,940
2011	838,641	54,916	23,254

### Note 9 - Operating Expenses

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

Personal services	\$16,939,312
Contract services	2,138,098
Supplies and other services	3,223,900
Communications and utilities	1,191,308
Scholarships	2,570,647
Depreciation	1,544,414
Other	<u>23,732</u>
Total	<u>\$27,631,411</u>

### Note 10 - Discretely Presented Component Unit Disclosures

#### A. Summary of Significant Accounting Policies

The significant accounting policies of the Foundation and NATC are described below to enhance the usefulness of the financial statements to the reader.

**Nature of the Component Units**—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, AZ, and provides supplemental philanthropic support for students, and programs and services that advance the mission of Northland Pioneer College (College). The Foundation receives cash contributions, gifts, membership dues, and rental income, administers and invests securities and property, conducts special event fund-raisers, and disburses payments to the College for educational purposes.

Navajo County Community College District  
(Northland Pioneer College)  
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June 30, 2013

NATC is a not-for-profit corporation operating in accordance with Section 501(c)(3) of the Internal Revenue Code. NATC owns and operates a regional training center located in Taylor, AZ, which is utilized by Fire and Law Enforcement personnel throughout Northeast Arizona. NATC derives its operating revenues primarily through membership dues paid by the various user agencies and through user fees charged to other private organizations.

**Basis of Accounting**—The financial statements of the Foundation and NATC have been prepared on the accrual basis of accounting. All revenues received for support of current operations are immediately recorded as revenues while revenues received for support of future operations are deferred and recognized over the periods to which the revenues relate.

**Financial Statement Presentation**—The Foundation and NATC are 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.

**Income Taxes**—The Foundation and NATC are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 43-1201 of the Arizona Revised Statutes. Therefore, the accompanying financial statements contain no provision or liability for income taxes. In addition, the Foundation qualifies for the charitable deduction under Internal Revenue Section 170(b)(1)(A).

The Foundation and NATC file informational tax returns with the U.S. federal and Arizona state governments.

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

**Cash and Cash Equivalents**—The Foundation and NATC recognize highly liquid investments with an original maturity of 3 months or less as cash equivalents and are stated at fair value.

**Investments**—The Foundation recognizes investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets.

NATC has no investments as of June 30, 2013.

**Property & Equipment**—The Foundation capitalizes purchased property and equipment, with estimated useful lives of more than 1 year, at cost. Donations of property and equipment are recorded as contributions at their estimated fair value on the date of donation. Such donations



Navajo County Community College District  
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June 30, 2013

are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets, which range from 10 to 40 years.

NATC capitalizes purchased property and equipment with a cost of \$5,000 or more and having estimated useful lives of more than 1 year. Property and equipment are recorded at cost or, for donated items, at their estimated fair value on the date of donation. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets, which range from 5 to 50 years

**Contributions**—The Foundation and NATC record contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

**Endowment Funds**—The Foundation is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which requires enhanced disclosures for all its endowment funds. UPMIFA provides the Foundation with guidance on accounting for the net asset classification of such endowment funds.

**Property Held for Sale**—The Foundation receives certain assets from donors that are held for resale. Such assets are recorded at their approximate fair market values at the date of donation. Property held for sale as of June 30, 2013, is reported as real estate investments.

**Date of Management's Review**—Management has reviewed events subsequent to June 30, 2013, up through the financial statements report date, for the Foundation, September 25, 2013, and for NATC, August 20, 2013, to evaluate their effect on the fair presentation of the financial statements. As of the report date, there have been no events subsequent to June 30, 2013, that are required to be disclosed in order to present fairly the financial position and changes in net assets of either the Foundation or of NATC.

## B. Cash

The total cash held by the Foundation and NATC at June 30, 2013, are as follows:

Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2013

	<b>Foundation</b>	<b>NATC</b>
Checking	\$ 92,035	\$100,392
Money market	27,978	
Investment account	11	
Savings	8,307	
Petty cash		
	<u>\$128,331</u>	<u>\$100,392</u>
Unrestricted cash	\$ 81,656	\$100,392
Restricted cash	46,675	
	<u>\$128,331</u>	<u>\$100,392</u>

### C. Investments

For the year ended June 30, 2013, the Foundation had investments consisting of marketable securities held with Edward Jones and real estate comprising several lots of land. The marketable securities have a fair value of \$112,224 and the real estate totaled \$8,000 as of June 30, 2013.

NATC had no investments as of June 30, 2013.

### D. Property and Equipment

The total property and equipment held by the Foundation and NATC at June 30, 2013, are as follows:

	<b>Foundation</b>	<b>NATC</b>
Land	\$ 10,000	\$ 110,000
Buildings	50,000	293,971
Furniture & equipment	2,233	
Training facilities		<u>2,082,781</u>
	62,233	2,486,752
Less accumulated depreciation	<u>(27,779)</u>	<u>(533,858)</u>
	<u>\$ 34,454</u>	<u>\$1,952,894</u>

### E. Restrictions on Net Assets

The Foundation had temporarily restricted net assets in the amount of \$55,110 as of June 30, 2013, consisting of donated contributions and investment earnings, which are available for scholarships in future years. The Foundation had permanently restricted net assets of \$65,964 as of June 30, 2013, representing two endowed scholarship funds.

Navajo County Community College District  
(Northland Pioneer College)  
Notes to Financial Statements  
June 30, 2013

NATC had no restricted net assets as of June 30, 2013.

#### F. Endowment Funds

The Foundation's endowment consists of a fund established for the Martia A. Smith Memorial Art Scholarship.

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

NATC had no endowment funds as of June 30, 2013.

#### G. Related Parties

For the year ended June 30, 2013, the Foundation subcontracted its Executive Director and made payments to Chugg Financial Services, LLC, a company that is owned and operated by its Executive Director.

For the year ended June 30, 2013, NATC received certain use of facilities and staff services from the College. However, since the provided facilities and services also benefit the College's educational programs, no value for these amounts are recorded on NATC's financial statements. The College also leases the training facility and equipment owned by NATC on a year-to-year lease. The lease income to NATC from Northland Pioneer College was \$8,100 for the year ended June 30, 2013.

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## Supplementary Information

Navajo County Community College District  
(Northland Pioneer College)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Labor</b>			
Workforce Investment Act (WIA) Cluster:			
WIA Adult Program, passed through the White Mountain Apache Tribe	17.258	AB171810855A4	\$ 4,126
Total Workforce Investment Act (WIA) Cluster			<u>4,126</u>
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants, passed through Maricopa County Community College District			
Total U.S. Department of Labor	17.282	TC-23759-12-60-A-4	<u>536,151</u>
			<u>540,277</u>
<b>U.S. Small Business Administration</b>			
Small Business Development Centers, passed through Maricopa County Community College District			
	59.037	SBAHQ-13-B-0061	<u>125,376</u>
<b>U.S. Department of Education</b>			
Adult Education—Basic Grants to States, passed through the Arizona Department of Education			
	84.002	V002A1100003	324,936
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		98,350
Federal Work-Study Program	84.033		89,326
Federal Pell Grant Program	84.063		<u>2,950,689</u>
Total Student Financial Assistance Cluster			<u>3,138,365</u>
Higher Education—Institutional Aid	84.031		328,356
Career and Technical Education—Basic Grants to States, passed through the Arizona Department of Education			
	84.048	V048A110003	<u>274,436</u>
Total U.S. Department of Education			<u>4,066,093</u>
			<u>\$ 4,731,746</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, 2013

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 federal or pass-through grantor or the 2013 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2013.

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Basic Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Governing Board of  
Navajo County Community College District

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of Navajo County Community College District as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 22, 2013. Our report includes a reference to the other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the District's financial statements. 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. However, the financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance associated with the aggregate discretely presented component units.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2013-01 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 from 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and that is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-02.

### **Navajo County Community College District's Response to Findings**

Navajo County Community College District's responses to the findings identified in our audit are presented on pages 39 through 43. The District's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Debbie Davenport  
Auditor General

November 22, 2013



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance**

Members of the Arizona State Legislature

The Governing Board of  
Navajo County Community College District

**Report on Compliance for Each Major Federal Program**

We have audited Navajo County Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Basis for Qualified Opinion on Adult Education—Basic Grants to States***

As described in item 2013-102 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding allowable costs/cost principles that are applicable to its Adult Education—Basic Grants to States program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

### ***Qualified Opinion on Adult Education—Basic Grants to States***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Navajo County Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Adult Education—Basic Grants to States for the year ended June 30, 2013.

### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, Navajo County Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2013.

### **Report on Internal Control over Compliance**

The District's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-102 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-101 to be a significant deficiency.

Navajo County Community College District's responses to the internal control over compliance findings identified in our audit are presented on pages 42 through 43. The District's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Debbie Davenport  
Auditor General

November 22, 2013

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Navajo County Community College District  
 (Northland Pioneer College)  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2013

**Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unmodified	
	<b>Yes</b>	<b>No</b>
Internal control over financial reporting:		
Material weaknesses identified?	<u>X</u>	___
Significant deficiencies identified?	___	<u>X</u> (None reported)
Noncompliance material to the financial statements noted?	___	<u>X</u>

**Federal Awards**

Internal control over major programs:		
Material weaknesses identified?	<u>X</u>	___
Significant deficiencies identified?	<u>X</u>	___
Type of auditors' report issued on compliance for major programs: Unmodified for all major programs except for the Adult Education—Basic Grants to States program, which was qualified.		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants
84.002	Adult Education—Basic Grants to States Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.031	Higher Education—Institutional Aid

Navajo County Community College District  
 (Northland Pioneer College)  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2013

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

**Yes**      **No**

Auditee qualified as low-risk auditee? \_\_\_\_\_   X  

**Other Matters**

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?   X        \_\_\_\_\_



Navajo County Community College District  
(Northland Pioneer College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

Financial Statement Findings

**2013-01**

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**The District needs to establish effective internal controls for granting access to its information systems**

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Criteria: The District should have effective system access controls to help prevent and detect unauthorized use, damage, loss, or modification of programs and data, including sensitive and confidential information.

Condition and context: The District did not adequately restrict or monitor logical access to its information systems during the year. For 15 of 27 user accounts tested, auditors determined the District allowed elevated access to the system when this access was either not necessary or inappropriate for the job responsibilities. Further, the activity of user accounts with elevated access was not periodically monitored.

Effect: There is an increased risk of theft, manipulation, or misuse of financial, sensitive, or confidential information by unauthorized users or by users whose access was not adequately restricted and monitored.

Cause: The District has used the same information systems for many years, but has not established effective internal controls for granting appropriate access to its information systems.

Recommendation: The District should continue developing and establishing policies and procedures to strengthen access controls and help prevent or detect unauthorized use, damage, or loss of information. These procedures should include the following:

- Restrict elevated and unlimited system access to only those individuals who need that level of access.
- Monitor system access for unusual or suspicious activity.

This finding is similar to a prior-year finding.

**2013-02**

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**The District should have effective payroll policies and procedures for its contracted hourly employees**

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Criteria: Effective internal controls over payroll should ensure that employees are being paid for only the hours they worked.

Condition and context: The District's personnel policies and employment contracts required full-time, nonexempt employees to work 40 hours each week. For two of eight payroll transactions tested for full-time, nonexempt employees, auditors determined the employees did not meet the terms of their employment contracts and were paid for time that was not worked. Specifically, the employees were paid for 80 hours of work over a 2-week period while the time sheets reflected only 78 hours of work.

Navajo County Community College District  
(Northland Pioneer College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

Effect: The District paid employees for hours not worked. Auditors determined the District may have paid an estimated \$37,800 to full-time, nonexempt employees for hours not worked during the fiscal year.

Cause: The District allowed full-time, nonexempt employees to have 1 hour off each Friday during the months the District operated on a 5-day workweek. Accordingly, full-time, nonexempt employees could potentially be paid for 80 hours while actually working only 78. Auditors were informed that this practice has been in place at the District for more than 30 years.

Recommendation: The District should change its procedures for full-time, nonexempt employees to help ensure that employees meet the terms of their employment contracts and are paid for the actual number of hours worked.

## Federal Award Findings and Questioned Costs

### 2013-101

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<b>CFDA No. and Name:</b>	84.031 <b>Higher Education—Institutional Aid</b>
<b>Award Number and Years:</b>	P031X100002–12; October 1, 2010 through September 30, 2015
<b>Federal Agency:</b>	<b>U.S. Department of Education</b>
<b>Compliance Requirement:</b>	Equipment and real property management
<b>Questioned Costs:</b>	None

---

Criteria: In accordance with 2 Code of Federal Regulations (CFR) §215.34, the District should maintain accurate records for equipment acquired with federal grant monies that include all required information such as an identification number and the physical location. Furthermore, the District's internal procedures require that all equipment meeting the District's capitalization thresholds should be tagged in order to help the District track, report, and inventory these items.

Condition and context: The District did not always maintain accurate and complete records for equipment purchased with federal grant monies. Specifically, for three of three equipment items tested, the District's capital assets listing did not contain an identification number, such as a manufacturer's serial number, model number, federal stock number, or national stock number. Additionally, for one of the items tested, the location was incorrect on the District's listing and the item was not tagged as required by the District's procedures.

Effect: Failure to maintain control over equipment purchased with federal grant monies can result in equipment being lost, stolen, or misused and result in noncompliance with federal regulations. This finding has the potential to affect other federal programs that the District administers.

Navajo County Community College District  
(Northland Pioneer College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

Cause: The District did not follow its own policies for tagging equipment and maintaining an accurate and complete capital assets listing.

Recommendation: To help ensure compliance with federal regulations and to help prevent loss, theft, or misuse of the program's equipment, the District should ensure that its policies for tagging equipment and maintaining an accurate and complete capital assets listing are followed.

**2013-102**

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<b>CFDA No. and Name:</b>	84.002 <b>Adult Education—Basic Grants to States</b>
<b>Award Number and Year:</b>	V002A1100003; July 1, 2012 through June 30, 2013
<b>Federal Agency:</b>	<b>U.S. Department of Education</b>
<b>Pass-through Grantor</b>	Arizona Department of Education
<b>Compliance Requirement:</b>	Allowable costs/cost principles
<b>Questioned Costs:</b>	None

---

Criteria: The District should have policies and procedures to ensure that employee compensation charged to federal programs is supported by records and represents employees' actual time and effort worked on federal programs. Specifically, 2 CFR §220, Appendix A, Section J(10), requires the District to maintain records that certify or confirm on an after-the-fact basis that employee compensation charged to federal programs represents a reasonable distribution of employees' actual time and effort worked on federal programs. In addition, such records should be retained for at least 3 years to comply with 34 CFR §80.42

Condition and context: The District did not certify that \$125,810 of employee compensation charged to the program between July 2012 and December 2012 represented the employees' actual time and effort spent on the federal program. Specifically, the District had 40 employees who worked on the program during that period; however, they did not prepare documentation certifying their time and effort was spent working for the program.

Effect: The District did not comply with the allowable costs/cost principles requirements outlined in 2 CFR §220, Appendix A, Section J(10). Auditors were able to perform additional auditing procedures to determine that the employees were authorized to work, and did work, on the program as allowed by the grant agreement; therefore, no questioned costs were noted. This finding has the potential to affect other federal programs that the District administers.

Cause: The District lacked policies and procedures for certifying or confirming employees' time and effort spent on federal programs between July 2012 and December 2012.

Recommendation: As of January 2013, the District implemented procedures to require its employees paid with federal grant monies to certify the percentage of time they worked on a specific program. The District is also maintaining these certification documents to be in compliance with retention requirements. The District should continue this practice.

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November 15, 2013

Ms. Debra K. Davenport  
Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the standards applicable to financial audits contained in *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the corrective action planned for the financial reporting findings and the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

V. Blaine Hatch  
Vice President for Administrative Services

*Quality education you can afford.*

Navajo County Community College District  
(Northland Pioneer College)  
Corrective Action Plan  
Year Ended June 30, 2013

Financial Statement Findings

2013-01

The District needs to establish effective internal controls for granting access to its information systems

Eric Bishop, Director of Information Services  
Anticipated completion date: June 30, 2014

Corrective Action Plan:

The District is aware of the issues related to its information systems and concurs with the finding and recommendations. The district will continue with its efforts to develop policies, procedures and mechanisms to strengthen access and monitoring system access for unusual or suspicious activity related to its computer systems.

The District has developed and approved a standardized form to document when system access is granted and revoked.

The District will continue to:

- Determine the proper balance of access levels related to job responsibilities and overall system security.
- Minimize number of users who have elevated access to the system.
- Develop a means to monitor the activities of elevated access users.
- Monitor system access for unusual or suspicious activity.

Navajo County Community College District  
(Northland Pioneer College)  
Corrective Action Plan  
Year Ended June 30, 2013

Financial Statement Findings

2013-02

The District should have effective payroll policies and procedures for its contracted hourly employees.

Sharon Hokanson, Director of Human Resources

Anticipated completion date: January 1, 2014

Corrective Action Plan:

The District is aware of the issues related to its payroll policies and procedures, and concurs with the finding and recommendations. The district will make the necessary changes to its procedures to ensure contracted hourly employees are paid for the actual hours worked each pay period.

Navajo County Community College District  
(Northland Pioneer College)  
Corrective Action Plan  
Year Ended June 30, 2013

Federal Award Findings and Questioned Costs

2013-101

CFDA No.: 84.031 Higher Education – Institutional Aid

John Bremer, Controller, and Eric Bishop, Director of IS & Title III Grant/Program Director

Completion Date: November 5, 2013

Corrective Action Plan:

The District has been made aware of procedural requirements related to equipment and concurs with the finding and recommendation. The District will train employees to ensure that processes for tagging equipment and maintaining an accurate and complete capital assets listing are followed.

All Higher Education – Institutional Aid (Title III) grant capital assets will be tagged with a radio frequency identification (RFID) tag by Information Services (IS) when received. IS will record the deployed location of Title III grant assets. This record will be shared with the Business Office. The Title III grant capital asset records, maintained in the Business Office, will include the asset's serial number, when applicable, and the location where the asset is deployed. The District will use its Equipment Disposition and/or Transfer Request forms when a Title III grant capital asset is moved to a different location or disposed of.



Navajo County Community College District  
(Northland Pioneer College)  
Corrective Action Plan  
Year Ended June 30, 2013

Federal Award Findings and Questioned Costs

2013-102

CFDA No.: 84.002 Adult Education – Basic Grants to States

John Bremer, Controller, and Rickey Jackson, Director of Developmental Services &  
Adult Education Grant/Program Director

Completion Date: January 1, 2013

Corrective Action Plan:

The District has been made aware of procedural requirements related to employee compensation charged to federal programs and concurs with the finding and recommendation. The District has established processes to certify that employee compensation charged to federal programs is supported by records and represents actual time and effort worked on federal programs. This certification is maintained in the District's records and is prepared and signed by the employee. In addition, the employee's supervisor, or other responsible individual having first-hand knowledge to verify the work performed by the employee, reviews and approves the certification.

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November 15, 2013

Ms. Debra K. Davenport  
Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

V. Blaine Hatch  
Vice President for Administrative Services

*Quality education you can afford.*

Navajo County Community College District  
(Northland Pioneer College)  
Summary Schedule of Prior Year Audit Findings  
Year Ended June 30, 2013

**Status of Prior Year Federal Award Findings and Questioned Costs**

CFDA No.: 84.048 Career and Technical Education – Basic Grants to States,  
U.S. Department of Education

Finding Number: **11-102**

Status: Fully Corrected

CFDA No.: 84.031 Higher Education — Institutional Aid, U. S. Department of  
Education

Finding Number: **12-101**

Status: Fully Corrected

CFDA No.: 84.031 Higher Education — Institutional Aid, U. S. Department of  
Education

Finding Number: **12-102**

Status: Fully Corrected.

CFDA No.: 84.031 Higher Education — Institutional Aid, U. S. Department of  
Education

Finding Number: **12-103**

Status: Fully Corrected.