



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

**Pinal County Community  
College District**

(Central Arizona College)

Year Ended June 30, 2005

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**Debra K. Davenport**  
Auditor General

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Pinal County Community College District  
(Central Arizona College)  
Single Audit Reporting Package  
Year Ended June 30, 2005

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Governing Board of  
Pinal County Community College District

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Pinal County Community College District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts for the discretely presented component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Pinal County Community College District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the District implemented the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principle.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2006, 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* and should be considered in assessing the results of our audit.

Debbie Davenport  
Auditor General

August 16, 2006



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## CENTRAL ARIZONA COLLEGE

### Pinal County Community College District (Central Arizona College) Management's Discussion and Analysis Fiscal Year Ended June 30, 2005

The Pinal County Community College District prepared the following discussion and analysis of the District's financial performance that provides an overview of the District's financial activities for the year ended June 30, 2005. Please read it in conjunction with the District's financial statements, which immediately follow.

#### Basic Financial Statements

The District's annual financial statements are presented in accordance with the Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. These statements allow for the presentation in a consolidated, single-column, entity-wide format. This format is similar to the type of financial statements typical of a business enterprise. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the District reports as a component unit those organizations that raise and hold economic resources for the direct benefit of the District. Based on GASB Statement No. 39, the District has one component unit, the Central Arizona College Foundation, Inc. (Foundation). The Foundation is audited separately from the District, and its financial activity is presented in conjunction with the District's financial statements.

Information on the component unit can be found in the report in the component unit's Statement of Financial Position, and Statement of Activities, as well as Note 8. Management's Discussion and Analysis focuses only on the District and does not address the component unit.

The Statement of Net Assets reflects the financial position of the District at June 30, 2005. The statement shows the District's assets, liabilities and other obligations, and net assets. Net assets are defined as total assets less total liabilities, and as such, reflects the institutional equity in the District's total assets.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and changes for the year ended June 30, 2005. This statement reports revenues and expenses, categorized as operating and nonoperating, special and extraordinary items, and the changes in net assets for the year.

#### ◆ District Offices ◆

8470 North Overfield Road ◆ Coolidge, Arizona 85228 ◆ 520/426-4444 ◆ FAX 520/426-4234

#### ◆ Campuses ◆

Aravaipa Campus ◆ 80440 East Aravaipa Road ◆ Winkelman, Arizona 85292 ◆ 520/357-7864 or 866/869-6507 ◆ FAX 520/357-2019

Signal Peak Campus ◆ 8470 North Overfield Road ◆ Coolidge, Arizona 85228 ◆ 520/426-4444 ◆ FAX 520/426-4234

Superstition Mountain Campus ◆ 273 Old West Highway ◆ Apache Junction, Arizona 85219 ◆ 480/288-4000 ◆ FAX 480/288-4058

Florence Center ◆ 800 East Butte, Building 100 ◆ Florence, Arizona 85232 ◆ 520/868-1449 ◆ FAX 520/868-1588

Casa Grande Education Center ◆ 1015 East Florence Boulevard ◆ Casa Grande, Arizona 85222 ◆ 520/421-4980 ◆ FAX 520/426-3512 ◆ SBDC 520/426-4341

Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2005

The Statement of Cash Flows reflects the cash and cash equivalents inflows and outflows for the year ended June 30, 2005. It shows cash flows from operating activities, financing activities, and investing activities. It also provides for a reconciliation of beginning and ending cash and cash equivalent balances for the year and a reconciliation of the cash flows from operating activities to the operating income (loss) as reported on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Financial Information

The condensed financial information below reflects the results of activity for fiscal year 2005. The financial information for the previous fiscal year 2004 is also presented as a reference point to illustrate trends for determining whether the institution's financial health is improving or deteriorating.

<u>Statement of Net Assets</u>	<u>As of June 30, 2005</u>	<u>As of June 30, 2004</u>	<u>Percent Change</u>
<b>Assets:</b>			
Current assets	\$14,736,220	\$11,060,412	33%
Noncurrent assets, other than capital assets	5,350,821	7,560,808	-29
Capital assets, net	<u>36,208,394</u>	<u>32,215,391</u>	12
Total assets	<u>56,295,435</u>	<u>50,836,611</u>	11
<b>Liabilities:</b>			
Long-term liabilities	23,662,959	24,529,767	-4
Other liabilities	<u>4,075,156</u>	<u>2,080,562</u>	96
Total liabilities	<u>27,738,115</u>	<u>26,610,329</u>	4
<b>Net assets:</b>			
Invested in capital assets, net of related debt	15,466,892	14,544,450	6
Restricted net assets	3,429,250	3,076,507	11
Unrestricted net assets	<u>9,661,178</u>	<u>6,605,325</u>	46
Total net assets	<u>\$28,557,320</u>	<u>\$24,226,282</u>	18

Pinal County Community College District  
 (Central Arizona College)  
 Management's Discussion and Analysis  
 Fiscal Year Ended June 30, 2005

<u>Statement of Revenues, Expenses, and Changes in Net Assets</u>			
	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>	<u>Percent Change</u>
Operating revenues	\$ 11,022,128	\$ 11,346,292	-3%
Operating expenses	<u>37,532,122</u>	<u>34,944,149</u>	7
Operating loss	<u>(26,509,994)</u>	<u>(23,597,857)</u>	12
Nonoperating revenues less expenses	<u>28,820,717</u>	<u>26,049,526</u>	11
Income before other revenues, expenses, gains, or losses	2,310,723	2,451,669	-6
Other revenues, expenses, gains, or losses	<u>2,020,315</u>	<u>680,000</u>	197
Increase in net assets	4,331,038	3,131,669	38
Net assets, beginning of year	<u>24,226,282</u>	<u>21,094,613</u>	15
Net assets, end of year	<u>\$ 28,557,320</u>	<u>\$ 24,226,282</u>	18



Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2005

<u>Revenues by Source</u>	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>	<u>Percent Change</u>
Operating revenues:			
Tuition and fees (net of scholarship allowances)	\$ 3,354,825	\$ 3,551,529	-6%
Grants and contracts	6,498,091	6,252,203	4
Other operating	<u>1,169,212</u>	<u>1,542,560</u>	-24
Total operating revenues	<u>11,022,128</u>	<u>11,346,292</u>	-3
Nonoperating revenues:			
Property taxes	23,412,957	21,314,654	10
State appropriations	5,659,200	5,659,902	0
State-shared sales tax	540,630	494,992	9
Grants and contracts		74,566	-100
Private grants	180,460		100
Investment income	165,054	89,124	85
Gain on disposal of capital assets		<u>45</u>	-100
Total nonoperating revenues	<u>29,958,301</u>	<u>27,633,283</u>	8
Capital appropriations	711,000	658,000	8
Capital grants and gifts	<u>1,309,315</u>	<u>22,000</u>	5851
Total revenues	<u>\$43,000,744</u>	<u>\$39,659,575</u>	8

Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2005

<u>Expenses by Function</u>	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>	<u>Percent Change</u>
Operating expenses:			
Educational and general:			
Instruction	\$15,001,289	\$14,200,267	6%
Public service	190,798	113,879	68
Academic support	2,418,985	2,200,780	10
Student services	2,877,156	2,607,642	10
Institutional support	7,653,090	6,429,428	19
Operation and maintenance of plant	4,016,392	3,870,224	4
Scholarships	1,811,365	1,573,964	15
Auxiliary enterprises	1,608,474	1,816,348	-11
Depreciation	<u>1,954,573</u>	<u>2,131,617</u>	-8
Total operating expenses	<u>37,532,122</u>	<u>34,944,149</u>	7
Nonoperating expenses:			
Interest expense on debt	1,137,584	1,092,860	4
Other	<u>                    </u>	<u>490,897</u>	-100
Total nonoperating expenses	<u>1,137,584</u>	<u>1,583,757</u>	-28
Total expenses	<u>\$38,669,706</u>	<u>\$36,527,906</u>	6

### Financial Highlights and Analysis

The District's primary mission is to provide educational services to the residents of Pinal County through three campuses and two education centers. Primary sources of funding for these services are property taxes, grants and contracts, state appropriations (includes capital appropriations), and tuition and fees, which together represent approximately 92 percent of the total revenues for the District.

During fiscal year 2005, the District received financial support from the State of \$6.4 million. Property tax revenues increased by \$2 million to \$23.4 million due to rising property valuations and population growth within the County. Grants and contracts from federal state local and private sources as well as tuition and fee revenues remained relatively consistent. Capital grants and gifts increased dramatically as the result of 1.3 million dollars in capital gifts received during the year for new building construction.

Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2005

Institutional support expenditures increased 19 percent and total operating expenses rose 7 percent for fiscal year 2005 due mainly to increases in employee salaries and employee-related expenses.

The increase in property tax revenues was the primary contributor to the \$3.6 million increase in current assets. Noncurrent assets decreased 29 percent and other liabilities increased by 96 percent primarily due to the expenditure of funds for building construction and other capital projects.

In fiscal year 2005, the District's total net assets increased by \$4.3 million, with revenues of \$43 million and expenses of \$38.7 million. Overall, the District's financial position continues to improve and remains strong, with adequate resources to meet all current obligations.

### Capital Assets and Debt Administration

During the fiscal year, the District substantially completed the construction of a new building at the Signal Peak Campus, which accounted for the majority of the \$4 million increase in capital assets. The construction was funded from capital gifts and proceeds from revenue bonds and pledged revenue obligations issued in the previous year.

The District's bond issues and pledged revenue obligations are rated Baa1 by Moody's Investor Service. During the year there were no changes in credit ratings or debt limitations that may affect future debt financing for the District.

### Requests for Information

This discussion and analysis is designed to provide a general overview of the Pinal County Community College District's finances for all those with an interest in such matters. Written requests for additional financial information should be addressed to the Office of the Vice President for Finance & Community Development, Pinal County Community College District, 8470 N. Overfield Rd., Coolidge, AZ 85228.

Pinal County Community College District  
(Central Arizona College)  
Statement of Net Assets—Primary Government  
June 30, 2005

	<u>Business-Type Activities</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 10,835,362
Receivables:	
Accounts (net of allowance of \$60,154)	1,876,934
Property taxes (net of allowance of \$23,419)	723,322
Government grants and contracts	736,873
Loans, current portion (net of allowance of \$26,177)	736
Other	32,489
Inventories	<u>530,504</u>
Total current assets	<u>14,736,220</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	1,357,891
Cash and investments held by trustees	3,981,318
Student loans receivable (net of allowance of \$6,004)	11,612
Capital assets, not being depreciated	7,321,747
Capital assets, being depreciated, net	<u>28,886,647</u>
Total noncurrent assets	<u>41,559,215</u>
Total assets	<u>56,295,435</u>

(Continued)

See accompanying notes to financial statements.

Pinal County Community College District  
(Central Arizona College)  
Statement of Net Assets—Primary Government  
June 30, 2005  
(Continued)

	<u>Business-Type Activities</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 2,004,581
Accrued payroll and employee benefits	872,524
Interest payable	416,106
Deposits held in custody for others	251,157
Insurance claims payable	333,788
Deferred revenue	197,000
Current portion of compensated absences payable	1,040,433
Current portion of long-term debt	<u>1,300,000</u>
Total current liabilities	<u>6,415,589</u>
Noncurrent liabilities:	
Compensated absences payable	853,638
Long-term debt	<u>20,468,888</u>
Total noncurrent liabilities	<u>21,322,526</u>
Total liabilities	<u>27,738,115</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	15,466,892
Restricted:	
Expendable:	
Scholarships	15,612
Grants and contracts	480,396
Loans	62,821
Debt service	1,300,001
Capital projects	1,570,420
Unrestricted	<u>9,661,178</u>
Total net assets	<u>\$ 28,557,320</u>

See accompanying notes to financial statements.

Pinal County Community College District  
(Central Arizona College)  
Statement of Financial Position—Component Unit  
June 30, 2005

	<u>Central Arizona College Foundation</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 568,103
Investments	<u>2,823,831</u>
Total assets	<u>\$ 3,391,934</u>
<b>Liabilities</b>	
Accounts payable	<u>\$ 258,476</u>
<b>Net Assets</b>	
Temporarily restricted	379,268
Permanently restricted	<u>2,754,190</u>
Total net assets	<u>3,133,458</u>
 Total liabilities and net assets	 <u>\$ 3,391,934</u>

See accompanying notes to financial statements.

Pinal County Community College District  
(Central Arizona College)  
Statement of Revenues, Expenses, and Changes in Net Assets—Primary Government  
Year Ended June 30, 2005

	<u>Business-Type Activities</u>
Operating revenues:	
Tuition and fees (pledged as security for revenue obligations and bonds and net of scholarship allowances of \$2,391,807)	\$ 3,354,825
Government grants and contracts	6,343,254
Private grants and contracts	154,837
Bookstore income (pledged as security for revenue obligations and bonds and net of scholarship allowances of \$590,329)	720,105
Food service income (pledged as security for revenue obligations and bonds)	43,623
Dormitory rentals and fees (pledged as security for revenue obligations and bonds and net of scholarship allowances of \$184,987)	273,443
Other	<u>132,041</u>
Total operating revenues	<u>11,022,128</u>
Operating expenses:	
Educational and general:	
Instruction	15,001,289
Public service	190,798
Academic support	2,418,985
Student services	2,877,156
Institutional support	7,653,090
Operation and maintenance of plant	4,016,392
Scholarships	1,811,365
Auxiliary enterprises	1,608,474
Depreciation	<u>1,954,573</u>
Total operating expenses	<u>37,532,122</u>
Operating loss	<u>(26,509,994)</u>
Nonoperating revenues (expenses):	
Property taxes	23,412,957
State appropriations	5,659,200
Share of state sales taxes	540,630
Private gifts	180,460
Investment income	165,054
Interest expense on debt	<u>(1,137,584)</u>
Net nonoperating revenues	<u>28,820,717</u>
Income before other revenues, expenses, gains, or losses	<u>2,310,723</u>
Capital appropriations	711,000
Capital grants and gifts	<u>1,309,315</u>
Increase in net assets	<u>4,331,038</u>
Total net assets, July 1, 2004	<u>24,226,282</u>
Total net assets, June 30, 2005	<u>\$ 28,557,320</u>

See accompanying notes to financial statements.

Pinal County Community College District  
(Central Arizona College)  
Statement of Activities—Component Unit  
Year Ended June 30, 2005

	<u>Central Arizona College Foundation</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support				
Contributions		\$ 30,205	\$ 296,133	\$ 326,338
Contributions—Fund-raisers		14,221		14,221
Dividends and interest		102,903		102,903
Net realized and unrealized gains on investments		<u>171,678</u>	<u>          </u>	<u>171,678</u>
Total revenues, gains, and other support		<u>319,007</u>	<u>296,133</u>	<u>615,140</u>
 Expenses and losses				
Scholarships	\$ 47,170			47,170
Fund-raising expenses	4,358			4,358
Office operations expenses	<u>142,994</u>			<u>142,994</u>
Total expenses and losses	<u>194,522</u>			<u>194,522</u>
 Net assets released from restrictions	<u>194,522</u>	<u>(194,522)</u>	<u>          </u>	<u>          </u>
 Changes in net assets		<u>124,485</u>	<u>296,133</u>	<u>420,618</u>
 Net assets, July 1, 2004	<u>-</u>	<u>254,783</u>	<u>2,458,057</u>	<u>2,712,840</u>
Net assets, June 30, 2005	<u>\$ -</u>	<u>\$ 379,268</u>	<u>\$ 2,754,190</u>	<u>\$ 3,133,458</u>

See accompanying notes to financial statements.



Pinal County Community College District  
(Central Arizona College)  
Statement of Cash Flows—Primary Government  
Year Ended June 30, 2005

	<b>Business-Type Activities</b>
Cash flows from operating activities:	
Tuition and fees	\$ 2,964,062
Grants and contracts	6,589,950
Bookstore receipts	734,591
Food services receipts	43,623
Dormitory rentals and fees	255,505
Collection of loans to students	48,227
Other receipts	288,692
Payments to employees	(24,063,822)
Payments to suppliers and providers of goods and services	(7,011,148)
Payments to students for scholarships	(1,807,561)
Payments to students for loans	(46,697)
Other payments	(749,767)
Net cash used for operating activities	(22,754,345)
Cash flows from noncapital financing activities:	
Property taxes	23,333,387
State appropriations	5,659,200
Share of state sales taxes	540,630
Noncapital endowments and gifts	180,460
Net cash provided by noncapital financing activities	29,713,677
Cash flows from capital and related financing activities:	
Property taxes	389,000
Capital appropriations	711,000
Capital grants and gifts	1,309,315
Principal paid on capital debt	(1,094,630)
Interest paid on capital debt	(1,081,733)
Purchases of capital assets	(5,947,576)
Net cash used for capital and related financing activities	(5,714,624)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	5,594,611
Interest received on investments	165,054
Purchases of investments	(2,223,994)
Net cash provided by investing activities	3,535,671
Net increase in cash and cash equivalents	4,780,379
Cash and cash equivalents, July 1, 2004	7,412,874
Cash and cash equivalents, June 30, 2005	\$ 12,193,253

(Continued)

See accompanying notes to financial statements.

Pinal County Community College District  
(Central Arizona College)  
Statement of Cash Flows—Primary Government  
Year Ended June 30, 2005  
(Continued)

	<b>Business-Type Activities</b>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (26,509,994)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,954,573
Changes in assets and liabilities:	
Increase in:	
Receivables, net	(298,716)
Inventories	(70,275)
Accounts payable/Deposits held in custody for others	1,431,279
Accrued payroll and employee benefits	139,338
Compensated absences payable	227,822
Insurance claims payable	171,126
Other liabilities	197,000
Decrease in:	
Student loans receivable	3,502
Net cash used for operating activities	\$ (22,754,345)
Noncash investing, capital, and noncapital financing activities:	
Disposal of capital assets being depreciated	\$ (197,924)
Elimination of accumulated depreciation on disposal of capital assets	197,924

See accompanying notes to financial statements.

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2005

## Note 1 - Summary of Significant Accounting Policies

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

During the year ended June 30, 2005, the District implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the District's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

### A. Reporting Entity

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

The Central Arizona College 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 the District for scholarships and college development activities. Although the District does not control the timing or amount of 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 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.

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board statements for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the District. The Foundation has a June 30 year-end.

During the year ended June 30, 2005, the Foundation distributed \$153,478 and is included in amounts distributed as private gifts and contracts to the District for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Central Arizona College Foundation, 8470 North Overfield Road, Coolidge, AZ 85228.

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2005

## B. Basis of Presentation and Accounting

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

A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy the District's obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other assets, including those that have been designated by management to be used for other than general operating purposes.

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

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

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

Pinal County Community College District  
 (Central Arizona College)  
 Notes to Financial Statements  
 June 30, 2005

Internal transactions and activities, such as transfers between funds, revenues and expenses recorded for internal service activities, and certain internal revenues and expenses recorded for grant activity have been eliminated for financial statement purposes.

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

### C. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, and highly liquid investments. All investments are stated at fair value.

### D. Inventories

The bookstore inventory is stated at cost by specific identification. All other 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. 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	All	N/A	N/A
Buildings	\$3,000	Straight-line	40 years
Improvements other than buildings	3,000	Straight-line	15 years
Equipment	3,000	Straight-line	5 years
Library books	All	Straight-line	10 years

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2005

Buildings and improvements other than buildings that are classified as construction in progress are not depreciated until completed. Upon completion, these capital assets are reclassified and reported as buildings and improvements other than buildings.

#### F. Investment Income

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

#### G. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 320 hours of vacation, but any vacation hours in excess of the maximum amount that are unused at year end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees. Therefore, a liability for sick leave benefits is not accrued in the financial statements. However, for employees with 5 or more years of service, 50 percent of the unused sick leave benefits do vest at employee termination. Sick leave benefits are accrued to the extent it is probable that the District will compensate employees through cash payments at termination. Accordingly, those amounts are accrued as a liability in the financial statements.

#### H. Scholarship Allowances

A scholarship allowance is the difference between the stated charge for goods and services provided by the District and the amount that is paid by the student or third parties making payments on behalf of the student. Accordingly, some types of student financial aid, such as Pell grants and scholarships awarded by the District, are considered to be scholarship allowances. These allowances are netted against tuition and fees revenues in the statement of revenues, expenses, and changes in net assets.

### Note 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) require the District to deposit special tax levies for the District's maintenance or capital outlay with the County Treasurer. Although not statutorily required, the District has also chosen to deposit other public monies in its custody with the County Treasurer. 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.

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2005

**Deposits**—At June 30, 2005, the carrying amount of the District’s deposits was \$3,555,201, and the bank balance was \$2,641,098. The District does not have a policy with respect to custodial credit risk. At June 30, 2005, \$2,441,098 of the District’s bank balance was exposed to custodial credit risk as follows: \$11,370 was uninsured and uncollateralized and \$2,429,728 was uninsured with collateral held by the pledging financial institution.

**Investments**—At June 30, 2005, the District’s investments consisted of the following:

Investment Type	Amount
County Treasurer’s investment pool	\$ 8,617,948
Mutual funds—U.S. Treasury securities	<u>3,981,318</u>
Total	<u>\$12,599,266</u>

The District’s investment in the County Treasurer’s investment pool represents a proportionate interest in that pool’s portfolios; however, the District’s portion is not identified with specific investments and is not subject to custodial credit risk. The County Treasurer’s investment pool is not subject to oversight or advisory groups, and that pool’s structure does not provide for shares.

**Credit Risk**—The District does not have a formal policy with respect to credit risk. At June 30, 2005, credit risk for the District’s investments was as follows:

Investment Type	Rating	Rating Agency	Amount
County Treasurer’s investment pool	Unrated	Not Applicable	\$ 8,617,948
Mutual funds—U.S. Treasury securities	Aaa	Moody’s	<u>3,981,318</u>
Total			<u>\$12,599,266</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 the possession of an outside party. The District does not have a formal policy with respect to custodial credit risk. At June 30, 2005, the District had \$3,981,318 of Mutual Funds—U.S. Treasury securities that were uninsured and held by the counterparty’s trust department or agent not in the District’s name.

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

**Interest Rate Risk**—The District does not have a formal policy for interest rate risk. At June 30, 2005, the District had the following investments in debt securities:

Pinal County Community College District  
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Notes to Financial Statements  
June 30, 2005

Investment Type	Investment Maturities	
	Amount	Less than 1 year
County Treasurer's investment pool	\$ 8,617,948	\$ 8,617,948
Mutual Funds—U.S. Treasury securities	<u>3,981,318</u>	<u>3,981,318</u>
Total	<u>\$12,599,266</u>	<u>\$12,599,266</u>

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

Cash, deposits, and investments:		Statement of Net Assets:	
Cash on hand	\$ 20,104	Cash and cash equivalents	\$10,835,362
Amount of deposits	3,555,201	Restricted assets:	
Amount of investments	<u>12,599,266</u>	Cash and cash equivalents	1,357,891
		Cash and investments held by trustees	<u>3,981,318</u>
Total	<u>\$16,174,571</u>	Total	<u>\$16,174,571</u>

### Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 2,545,147			\$ 2,545,147
Construction in progress (estimated cost to complete \$635,986)	<u>148,501</u>	<u>\$4,628,099</u>		<u>4,776,600</u>
Total capital assets not being depreciated	<u>2,693,648</u>	<u>4,628,099</u>		<u>7,321,747</u>
Capital assets being depreciated:				
Buildings	39,054,768	93,792		39,148,560
Improvements other than buildings	3,698,870	109,945		3,808,815
Equipment	9,796,461	1,047,102	\$ 197,924	10,645,639
Library books	<u>1,317,104</u>	<u>68,638</u>	<u>          </u>	<u>1,385,742</u>
Total capital assets being depreciated	<u>53,867,203</u>	<u>1,319,477</u>	<u>197,924</u>	<u>54,988,756</u>
Less accumulated depreciation for:				
Buildings	13,947,503	937,991		14,885,494
Improvements other than buildings	1,289,017	223,918		1,512,935
Equipment	8,206,535	708,458	197,924	8,717,069
Library books	<u>902,405</u>	<u>84,206</u>	<u>          </u>	<u>986,611</u>
Total accumulated depreciation	<u>24,345,460</u>	<u>1,954,573</u>	<u>197,924</u>	<u>26,102,109</u>
Total capital assets being depreciated, net	<u>29,521,743</u>	<u>(635,096)</u>	<u>          </u>	<u>28,886,647</u>
Capital assets, net	<u>\$32,215,391</u>	<u>\$3,993,003</u>	<u>\$ -0-</u>	<u>\$36,208,394</u>



Pinal County Community College District  
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Notes to Financial Statements  
June 30, 2005

Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due within 1 year
Compensated absences payable	\$ 1,666,249	\$1,317,969	\$1,090,147	\$ 1,894,071	\$1,040,433
Bonds payable:					
General obligation bonds	\$ 35,000		\$ 35,000		
Revenue bonds	10,520,000		660,000	\$ 9,860,000	\$ 550,000
Deferred amount on refunding	(598,467)		(149,616)	(448,851)	
Total bonds payable	<u>9,956,533</u>		<u>545,384</u>	<u>9,411,149</u>	<u>550,000</u>
Pledged revenue obligations payable	13,530,000		705,000	12,825,000	750,000
Deferred amount on refunding	(623,015)		(155,754)	(467,261)	
Total pledged revenue obligations payable	<u>12,906,985</u>		<u>549,246</u>	<u>12,357,739</u>	
Total long-term debt	<u>\$22,863,518</u>	<u>\$ -0-</u>	<u>\$1,094,630</u>	<u>\$21,768,888</u>	<u>\$1,300,000</u>

**Bonds**—During the year ended June 30, 2005, the District paid the remaining \$35,000 of General Obligation Bonds in arrears. The District's remaining bond debt consists of revenue bonds that are generally callable with interest payable semiannually. Revenue bonds are repaid from tuition, fees, rentals, and other sales and services. Revenue bonds outstanding at June 30, 2005, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue Bonds—Series 2004	\$10,500,000	7/1/05-18	2.5-4.5%	\$9,860,000

The following schedule details debt service requirements to maturity for the District's bonds payable at June 30, 2005:

	Revenue Bonds	
	Principal	Interest
Year ending June 30,		
2006	\$ 550,000	\$ 388,031
2007	565,000	372,681
2008	580,000	355,506
2009	600,000	334,806
2010	620,000	310,406
2011-15	3,525,000	1,128,915
2016-18	<u>3,420,000</u>	<u>295,058</u>
Total	<u>\$9,860,000</u>	<u>\$3,185,403</u>

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2005

In prior years, the District defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the District's financial statements. At June 30, 2005, the following outstanding bonds were considered defeased:

Description	Amount
Revenue Bonds—Series 1998	\$7,475,000

**Pledged Revenue Obligations**—The District's pledged revenue obligations were issued to provide monies to construct a student services building, a shipping and receiving facility, a dormitory, and a computer commons facility. The obligations are secured by tuition and student fees of the District and are callable with interest payable semiannually.

Pledged revenue obligation requirements at June 30, 2005, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Pledged Revenue Obligations— Series 2004	\$13,530,000	7/1/05-18	2.0-4.125%	\$12,825,000

The following schedule details debt service requirements to maturity for the District's pledged revenue obligations payable at June 30, 2005:

Year Ending June 30,	Pledged Revenue Obligations	
	Principal	Interest
2006	\$ 750,000	\$ 429,806
2007	765,000	409,397
2008	790,000	384,638
2009	815,000	361,581
2010	835,000	339,937
2011-15	4,565,000	1,289,737
2016-18	4,305,000	356,213
Total	\$12,825,000	\$3,571,309

In prior years, the District defeased certain pledged revenue obligations payable by placing the proceeds of new in an irrevocable trust to provide for all future debt service payments on the obligations. Accordingly, the trust account assets and the liability for these defeased obligations are not included in the District's financial statements. At June 30, 2005, the following outstanding obligations were considered defeased:

Description	Amount
Pledged Revenue Obligations—Series 1998	\$8,180,000

Pinal County Community College District  
 (Central Arizona College)  
 Notes to Financial Statements  
 June 30, 2005

Note 5 - 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 seven other Arizona community college districts and more than 200 Arizona 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 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 1 year. The District will be charged for any such assessment in the following year. During the fiscal year ended June 30, 2005, the District was charged an additional assessment for insurance claims liability in the amount of \$29,997. 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. Except for the additional assessment above, settled claims resulting from any of these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

**Insurance Claims**—The District finances uninsured risks of loss for certain health and eye care benefits to eligible employees and dependents. The healthcare plans provide coverage for claims up to \$45,000 for each individual per year, not to exceed an aggregate stop loss of \$1 million. The District purchases commercial insurance for claims in excess of these limits. The eye care plan offers substantially reduced prices for eye examinations and eyewear. Settled claims have not exceeded the District's coverage for either plan in any of the past 3 fiscal years. An independent administrator provides claim and recordkeeping services for the plans.

The insurance claims payable liability of \$333,788 at June 30, 2005, is the estimated ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. This estimate is based on historical data for health insurance and eye care insurance claims reported during the year, prior-year claims of continuing duration, and claims incurred but not reported as of June 30, 2005. Changes in the District's claims payable for the years ended June 30, 2005 and 2004, were as follows:

	2005	2004
Claims payable, beginning of year	\$ 162,662	\$ 188,071
Current year claims and changes in estimates	2,496,045	1,517,583
Claim payments	<u>(2,324,919)</u>	<u>(1,542,992)</u>
Claims payable, end of year	<u>\$ 333,788</u>	<u>\$ 162,662</u>

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2005

Note 6 - Retirement Plan

**Plan Description**—The District contributes to a cost-sharing, multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

**Funding policy**—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2005, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2005, 2004, and 2003, were \$953,861, \$885,186, and \$373,017, respectively, which were equal to the required contributions for the year.

Note 7 - Operating Expenses

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

Personal services	\$24,602,108
Contract services	3,138,848
Supplies and other services	3,953,305
Communications and utilities	1,322,156
Scholarships	1,811,365
Depreciation	1,954,573
Other	<u>749,767</u>
Total	<u>\$37,532,122</u>

Pinal County Community College District  
 (Central Arizona College)  
 Notes to Financial Statements  
 June 30, 2005

Note 8 - Central Arizona College Foundation

**Basis of Presentation**—The financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Contributions**—The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Restricted Net Assets**—Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

Promise for the Future Program	\$ 851,372
Other restricted scholarship programs	1,735,963
Foundation activities	<u>166,855</u>
Total	<u>\$2,754,190</u>

Temporarily restricted net assets are available for the following purposes:

Foundation activities and scholarships	\$379,268
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Supplementary Information

Pinal County Community College District  
(Central Arizona College)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
Hispanic Serving Institutions Assisting Communities	14.514		\$ <u>40,677</u>
<b>U.S. Department of Justice</b>			
Police Corps, passed through the Arizona Police Officers Standards and Training Board	16.712	None	<u>303,928</u>
<b>National Aeronautics and Space Administration</b>			
Science, Engineering, Mathematics and Aerospace Academy, passed through Cuyahoga Community College	43.unknown	NAS3-02123-CAC	<u>265,839</u>
<b>National Science Foundation</b>			
Education and Human Resources, passed through Arizona State University	47.076	DUE-0202 444	<u>35,000</u>
<b>U.S. Small Business Administration</b>			
Small Business Development Center, passed through Maricopa County Community College District	59.037	4-6003001-Z-0003-12 3-6003001-Z-0003-11	<u>99,634</u>
<b>U.S. Department of Education</b>			
Adult Education—State Grant Program, passed through the Arizona Department of Education	84.002	05FAEABE-570612-01A	107,250
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		96,651
Federal Work-Study Program	84.033		72,321
Federal Pell Grant Program	84.063		<u>3,466,859</u>
Total Student Financial Assistance Cluster			<u>3,635,831</u>
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	ED03-0030-08	123,571
Higher Education—Institutional Aid	84.031		426,149
Vocational Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	05FCTDBG-570612-04A 04FCTDBG-470612-03A	150,889
Leveraging Educational Assistance Partnership, passed through the Arizona Commission for Postsecondary Education	84.069	None	12,345

(Continued)

See accompanying notes to schedule.

Pinal County Community College District  
(Central Arizona College)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2005  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Bilingual Education—Professional Development	84.195		\$ 190,997
Even Start—Migrant Education, passed through the Arizona Department of Education	84.214	05FECMEE-570612-03A 04-FECMEE-470612-04C	124,254
Tech-Prep Education, passed through Pinal County Tech-Prep Consortium	84.243	05FVEDTP-070734-02A	10,411
Special Education—Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325		15,896
Child Care Access Means Parents in School	84.335		35,411
Early Childhood Educator Professional Development, passed through Arizona State University	84.349	S349A030112	<u>86,135</u>
Total U.S. Department of Education			<u>4,919,139</u>
 <b>U.S. Department of Health and Human Services</b>			
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Economic Security	93.994	161072	<u>8,466</u>
Total Expenditures of Federal Awards			<u><u>\$ 5,672,683</u></u>

See accompanying notes to schedule.



Pinal County Community College District  
(Central Arizona College)  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2005

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pinal County Community College District and is presented on the accrual basis of accounting. The information in 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 *2005 Catalog of Federal Domestic Assistance*. When there was no CFDA number or federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2005.



**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
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  
Pinal County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Pinal County Community College District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 16, 2006. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40 and was modified due to our reliance on the report of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we will report to the District's management in a separate letter at a future date.

## Compliance and Other Matters

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

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

Debbie Davenport  
Auditor General

August 16, 2006



**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance in  
Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Governing Board of  
Pinal County Community College District

### **Compliance**

We have audited the compliance of Pinal County Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Pinal County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Questioned Costs as item 05-101.

## Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 05-101.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider item 05-101 to be a material weakness.

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

Debbie Davenport  
Auditor General

August 16, 2006

Pinal County Community College District  
 (Central Arizona College)  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2005

**Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued:		Unqualified
	<b>Yes</b>	<b>No</b>
Material weakness identified in internal control over financial reporting?	___	___ <u>X</u>
Reportable condition identified not considered to be a material weakness?	___	___ <u>X</u> (None reported)
Noncompliance material to the financial statements noted?	___	___ <u>X</u>

***Federal Awards***

Material weaknesses identified in internal control over major programs?		___ <u>X</u>
Reportable condition identified not considered to be a material weakness?	___ <u>X</u>	___
Type of auditors' report issued on compliance for major programs:		Unqualified
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>
16.712	Police Corps
84.007	Student Financial Assistance Cluster:
84.033	Federal Supplemental Educational Opportunity Grants
84.063	Federal Work-Study Program
84.031	Federal Pell Grant Program
	Higher Education—Institutional Aid

Pinal County Community College District  
(Central Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

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

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 —

Pinal County Community College District  
(Central Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

Federal Award Findings and Questioned Costs

05-101

Student Financial Assistance Cluster

CFDA No.: 84.007 **Federal Supplemental Educational Opportunity Grants**

84.033 **Federal Work-Study Program**

84.063 **Federal Pell Grant Program**

**U.S. Department of Education**

Award Year: October 1, 2003 through September 30, 2004

Award Year: October 1, 2004 through September 30, 2005

Questioned Cost: Unknown

The District incorrectly awarded financial assistance to students enrolled in programs with nonterm classes using the standard-term formula. The District included Early Childhood Education (ECE) open entry/open exit courses (nonterm classes) in its student financial assistance calculations. As a result, 221 out of 1,612 students who received student financial assistance awards were enrolled in at least one ECE open entry/open exit course. The District's ECE open entry/open exit courses allowed students to exit the course when set objectives were achieved. These courses should not have been included in the standard-term student financial assistance award calculation since the course instruction methods did not conform to the standard-term funding formula requirement. The 34 Code of Federal Regulations (CFR) §§690.63(a)(4) and 690.63(e) require the use of Pell Formula 4, as described in the *2004-2005 Federal Student Aid Handbook*, Volume 3.

Auditors noted that of the 48 students originally tested for the Student Financial Assistance Cluster, 6 students were exclusively enrolled in ECE open entry/open exit courses and had been awarded student financial assistance of \$10,838. We extended our auditing procedures and determined that an additional 187 students receiving a total of \$312,832 in student financial assistance were enrolled in ECE open entry/open exit courses which exceeded 50 percent of their total credit load. It was not practical to extend our auditing procedures sufficiently to determine the amount of questioned costs, if any, by recalculating the federal awards for the 193 students described above.

This finding is considered a reportable condition and immaterial noncompliance with the Student Financial Assistance Cluster's eligibility requirements.

To comply with 34 CFR §§690.63(a)(4) and 690.63(e), the District should award student financial assistance to students using the approved funding calculation guidelines.





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**CENTRAL ARIZONA COLLEGE**

August 16, 2006

Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 140  
Phoenix, Az. 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with 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,

Dennis A. Jenkins  
Senior Vice President of Finance  
and Community Development/CFO

◆ *District Offices* ◆

8470 North Overfield Road ◆ Coolidge, Arizona 85228 ◆ 520/426-4444 ◆ FAX 520/426-4234

◆ *Campuses* ◆

Aravaipa Campus ◆ 80440 East Aravaipa Road ◆ Winkelman, Arizona 85292 ◆ 520/357-7864 or 866/869-6507 ◆ FAX 520/357-2019

Signal Peak Campus ◆ 8470 North Overfield Road ◆ Coolidge, Arizona 85228 ◆ 520/426-4444 ◆ FAX 520/426-4234

Superstition Mountain Campus ◆ 273 Old West Highway ◆ Apache Junction, Arizona 85219 ◆ 480/288-4000 ◆ FAX 480/288-4058

Florence Center ◆ 800 East Butte, Building 100 ◆ Florence, Arizona 85232 ◆ 520/868-1449 ◆ FAX 520/868-1588

Casa Grande Education Center ◆ 1015 East Florence Boulevard ◆ Casa Grande, Arizona 85222 ◆ 520/421-4980 ◆ FAX 520/426-3512 ◆ SBDC 520/426-4341

Pinal County Community College District  
(Central Arizona College)  
Corrective Action Plan  
Year Ended June 30, 2005

05-101

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplement Educational Opportunity Grant

84.033 Federal Workstudy Program

84.063 Federal Pell Grant Program

Dennis Jenkins, Senior Vice President of Finance  
and Community Development/CFO

Anticipated Completion Date: September, 2006

Corrective Action Plan – The District’s federal student financial assistance procedures were revised to use the required funding formula for non-term courses, Pell Funding Formula 4, for awarding Pell grant funds for Early Childhood Education open entry/open exit courses. In addition, the District is currently recalculating the awards given during Fy 05 that incorrectly used the standard Pell funding formula for those courses.



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**CENTRAL ARIZONA COLLEGE**

August 16, 2006

Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 140  
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.

Sincerely,

Dennis A. Jenkins  
Senior Vice President of Finance  
and Community Development/CFO

◆ *District Offices* ◆

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Pinal County Community College District  
(Central Arizona College)  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2005

04-101

Student Financial Assistance Cluster

CFDA No.: 84.003 Federal Work-Study Program

84.007 Federal Supplement Educational Opportunity Grant

84.063 Federal Pell Grant Program

US Department of Education

Status: Partially Corrected - Subsequent to the finding for FY 04 the determination was made that open entry/open exit courses do conform to the approved federal funding formula guidelines for non-term courses using formula 4. The District, however, had used the standard term funding formula. Procedures have been revised to use the funding formula 4 for non-term courses in calculating student financial aid assistance for ECE open entry/open exit courses. Also, in response to a request for information from the US Department of Education, the District is currently recalculating the federal funding for open entry/open exit courses using the correct non-term funding formula 4.

04-102

CFDA No.: 93.575 Child Care and Development Block Grant

US Department of Health and Human Services, passed through the Arizona Department of Economic Security (ADES)

Status: Fully Corrected - During FY 06 the District conducted training and review of federal expenditure guidelines under OMB Circular A-21 with Child Care and Development Managers. Also, subsequent to the audit finding for FY04, the determination was made by the grantor that the District's intergovernmental agreement with the Arizona Department of Economic Security (ADES) classified the District as a third-party vendor and not a grant subrecipient, therefore the District was not subject to the requirements prescribed by OMB Circular A-133.

04-103

CFDA No.: 93.575 Child Care and Development Block Grant

US Department of Health and Human Services, passed through the Arizona Department of Economic Security (ADES)

Status: Fully Corrected - Procedures have been strengthened with the Early Childhood Education Program to ensure that adequate documentation was maintained to support course competency objectives and the achievement of those objectives by the participants. Also, subsequent to the audit finding for FY04, the determination was made by the grantor that the District's intergovernmental agreement with the Arizona Department of Economic Security (ADES) classified the District as a third-party vendor and not a grant subrecipient, therefore the District was not subject to the requirements prescribed by OMB Circular A-133.