



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

**Pinal County Community
College District**

(Central Arizona College)

Year Ended June 30, 2010



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, 2010

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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
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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2011, 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

March 25, 2011

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2010. 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 11. 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, 2010. The statement shows the District's assets, liabilities, 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 fiscal year 2010. This statement reports revenues and expenses, categorized as operating and nonoperating, special and extraordinary items, and the changes in net assets for the year.

The Statement of Cash Flows reflects the cash and cash equivalent inflows and outflows for fiscal year 2010. It shows cash flows from operating activities, noncapital financing activities, capital and related 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 loss as reported on the Statement of Revenues, Expenses, and Changes in Net Assets.

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

Condensed Financial Information

The condensed financial information below reflects the results of activity for fiscal year 2010. The financial information for the previous fiscal year 2009 is also presented as a reference point to illustrate trends for determining whether the institution's financial health is improving or deteriorating.

<u>Net Assets</u>	<u>As of June 30, 2010</u>	<u>As of June 30, 2009</u>	<u>Percent Change</u>
Assets:			
Current assets	\$ 63,292,612	\$51,619,881	23%
Noncurrent assets, other than capital assets	42,057,619	1,801,817	2234
Capital assets, net	<u>42,617,643</u>	<u>41,915,581</u>	2
Total assets	<u>147,967,874</u>	<u>95,337,279</u>	55
Liabilities:			
Long-term liabilities	62,501,131	24,198,013	158
Other liabilities	<u>4,726,805</u>	<u>4,077,701</u>	16
Total liabilities	<u>67,227,936</u>	<u>28,275,714</u>	138
Net assets:			
Invested in capital assets, net of related debt	20,365,305	19,714,853	3
Restricted net assets	2,679,369	1,596,057	68
Unrestricted net assets	<u>57,695,264</u>	<u>45,750,655</u>	26
Total net assets	<u>\$ 80,739,938</u>	<u>\$67,061,565</u>	20

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

<i><u>Revenues, Expenses, and Changes in Net Assets</u></i>			
	<i><u>Year Ended June 30, 2010</u></i>	<i><u>Year Ended June 30, 2009</u></i>	<i><u>Percent Change</u></i>
Operating revenues	\$ 6,225,011	\$ 6,673,956	-7%
Operating expenses	<u>56,354,385</u>	<u>48,325,904</u>	17
Operating loss	<u>(50,129,374)</u>	<u>(41,651,948)</u>	20
Nonoperating revenues less expenses	<u>63,773,697</u>	<u>52,214,828</u>	22
Income before other revenues, expenses, gains, or losses	13,644,323	10,562,880	29
Other revenues, expenses, gains, or losses	<u>34,050</u>	<u> </u>	100
Increase in net assets	13,678,373	10,562,880	29
Net assets, beginning of year	<u>67,061,565</u>	<u>56,498,685</u>	19
Net assets, end of year	<u>\$ 80,739,938</u>	<u>\$ 67,061,565</u>	20

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

<u>Revenues by Source</u>	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2009</u>	<u>Percent Change</u>
Operating revenues:			
Tuition and fees (net of scholarship allowances)	\$ 5,341,242	\$ 5,923,455	-10%
Other operating	<u>883,769</u>	<u>750,501</u>	18
Total operating revenues	<u>6,225,011</u>	<u>6,673,956</u>	-7
Nonoperating revenues:			
Property taxes	43,455,031	35,382,129	23
State appropriations	4,935,100	5,401,293	-9
State-shared sales tax	556,505	538,742	3
Grants and contracts	16,122,536	10,367,257	56
Private grants and gifts	596,877	465,941	28
Investment income	<u>880,987</u>	<u>954,909</u>	-8
Total nonoperating revenues	<u>66,547,036</u>	<u>53,110,271</u>	25
Capital grants and gifts	<u>34,050</u>		100
Total revenues	<u>\$72,806,097</u>	<u>\$59,784,227</u>	22

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

<u>Expenses by Function</u>	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2009</u>	<u>Percent Change</u>
Operating expenses:			
Educational and general:			
Instruction	\$20,832,207	\$18,913,011	10%
Public service	230,119	251,802	-9
Academic support	3,318,227	2,934,075	13
Student services	4,116,052	3,468,481	19
Institutional support	10,309,003	9,342,887	10
Operation and maintenance of plant	4,688,191	4,939,362	-5
Scholarships	8,408,310	4,180,344	101
Auxiliary enterprises	1,012,010	841,553	20
Depreciation	<u>3,440,266</u>	<u>3,454,389</u>	0
Total operating expenses	<u>56,354,385</u>	<u>48,325,904</u>	17
Nonoperating expenses:			
Interest expense on debt	2,770,824	895,443	209
Other	<u>2,515</u>	<u> </u>	100
Total nonoperating expenses	<u>2,773,339</u>	<u>895,443</u>	210
Total expenses	<u>\$59,127,724</u>	<u>\$49,221,347</u>	20

Financial Highlights and Analysis

The District's primary mission is to provide educational services to the residents of Pinal County through three campuses and seven education centers. Primary sources of funding for these services are property taxes, state appropriations, grants and contracts, and tuition and fees, which together represent approximately 96 percent of the District's total revenues.

During fiscal year 2010, there was an increase in total revenues of \$13 million when compared with the prior year. Property tax revenues increased by \$8.1 million because of an increase in the primary property tax rate and \$2.8 million in secondary property tax revenues. Grants and contracts increased \$5.8 million primarily because of a \$5.6 million increase in award amounts for the student Pell grant program. Private grants and gifts increased by 28 percent because of an increase in scholarships funded by the Foundation. Other operating revenue increased by 18 percent primarily because of an increase in facilities rental income. Total operating revenues decreased by 7 percent because of a decrease in net tuition and fees revenue caused by a substantial increase in the scholarship allowance of \$1.7 million.

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

State appropriations decreased by \$466,193 and state capital appropriations were eliminated for the year because of the continued state economic downturn. Investment income decreased slightly because of a decrease in the rate of return on pooled investments at the County Treasurer.

Total expenses for the year 2010 increased by 20 percent as compared with the prior year. Instruction, academic support, and student services expenditures increased in the salary and benefit and supplies areas in order to support the 14 percent increase in student enrollment for the year. Scholarship expenses more than doubled because of a \$5.6 million increase in Pell grant expenditures. Institutional support expenditures increased by 10 percent mainly because of salary and benefit and computer software licensing fee increases. Interest expense on debt more than doubled because of the addition of \$1.9 million general obligation bond interest expense incurred in fiscal year 2010. Auxiliary expenses increased by 20 percent because of increases in salary and benefits and food service costs.

Unspent proceeds from a \$40 million general obligation bond issuance in fiscal year 2010, recorded as a noncurrent asset, and the increased property tax revenues are the primary contributors to the \$52.6 million increase in total assets. The current and long-term debt related to the general obligation bond issuance is the main reason for the substantial increases in long-term liabilities.

In fiscal year 2010, the District's total net assets increased by \$13.7 million, with total revenues of \$72.8 million and total expenditures of \$59.1 million. Total current assets and unrestricted net assets increased by \$11.7 million and \$11.9 million, respectively, mainly because of excess revenues over expenditures in the general operating fund. Restricted net assets increased by \$1.1 million because of increased debt service available to fund general obligation bond debt.

Overall, the District's financial position continued to improve and remains strong, with adequate resources to meet all current obligations.

Capital Assets and Debt Administration

As of June 30, 2010, the District's capital assets, net of accumulated depreciation, totaled \$42,617,643, an increase of \$700,000 from the prior year. Capital assets include land, equipment, buildings, improvements other than buildings, library books, and construction in progress. Additional information on capital assets can be found in Note 3 to the District's financial statements.

In July 2009, the District issued \$40 million Series A general obligation bonds as a part of the \$99 million capital project initiative approved by the voters in 2008. The proceeds will be used to fund the Superstition Mountain Campus expansion, the purchase of land for the new Maricopa Campus, the construction of the first phase of the new Maricopa Campus, and the renovation of selected buildings on the Signal Peak and Aravaipa Campuses. The bond issue has been rated A1 by Moody's Investment Services and AA- by Standard and Poor's. Additional information on the District's long-term debt is discussed in Note 4 to the District's financial statements.

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2010

Current Factors Having Probable Future Financial Significance

Due to the continuing local economic downturn and the District's commitment to increase access to post-secondary education for the residents of Pinal County, enrollment within the District continued to grow significantly with a 14 percent increase for fiscal year 2010. State funding, however, has continued to diminish. In fiscal year 2010, state appropriations were reduced by \$466,193 from the prior year and state capital appropriations were eliminated. The District anticipates additional state appropriation funding cuts for fiscal year 2011.

State funding cuts to date have been partially or fully offset by additional tax levy revenues. For fiscal year 2010, the primary assessed value for property in the County increased by 17 percent. However, with the continued state economic downturn, the County projected an 11 percent decline in primary assessed values and a 21 percent decline in secondary assessed values for fiscal year 2011. To offset decline in assessed values, it was necessary for the District to increase the tax rates for fiscal year 2011. The District is still well below the primary tax levy limit prescribed by state statute. The District is continuing to develop budgetary strategies to fund its commitment to expand access to postsecondary education for Pinal County residents.

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 of Finance and Administration, Pinal County Community College District, 8470 N. Overfield Rd., Coolidge, AZ 85128.

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Financial Statements

Pinal County Community College District
(Central Arizona College)
Statement of Net Assets—Primary Government
June 30, 2010

	<u>Business-Type Activities</u>
Assets	
Current assets:	
Cash and investments	\$ 55,906,905
Receivables:	
Accounts (net of allowance of \$132,278)	2,591,625
Property taxes (net of allowance of \$79,556)	2,561,396
Government grants and contracts	2,205,401
Student loans (net of allowance of \$26,567)	1,198
Other (net of allowance of \$409)	<u>26,087</u>
Total current assets	<u>63,292,612</u>
Noncurrent assets:	
Restricted assets:	
Cash and investments held by County Treasurer	40,230,780
Investments held by trustees	1,813,753
Other receivables (net of allowance of \$205)	13,086
Capital assets, not being depreciated	4,418,813
Capital assets, being depreciated, net	<u>38,198,830</u>
Total noncurrent assets	<u>84,675,262</u>
Total assets	<u>147,967,874</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 928,622
Accrued payroll and employee benefits	1,436,010
Interest payable	1,383,965
Deposits held in custody for others	307,786
Insurance claims payable	670,422
Current portion of compensated absences payable	1,314,866
Current portion of long-term debt	<u>2,666,840</u>
Total current liabilities	<u>8,708,511</u>
Noncurrent liabilities:	
Compensated absences payable	703,866
Long-term debt	<u>57,815,559</u>
Total noncurrent liabilities	<u>58,519,425</u>
Total liabilities	<u>67,227,936</u>

(Continued)

See accompanying notes to financial statements.

Pinal County Community College District
 (Central Arizona College)
 Statement of Net Assets—Primary Government
 June 30, 2010
 (Concluded)

	<u>Business-Type Activities</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 20,365,305
Restricted:	
Expendable:	
Grants and contracts	62,604
Loans	65,771
Debt service	2,550,994
Unrestricted	<u>57,695,264</u>
 Total net assets	 <u><u>\$ 80,739,938</u></u>

See accompanying notes to financial statements.

Pinal County Community College District
 (Central Arizona College)
 Statement of Financial Position—Component Unit
 June 30, 2010

	<u>Central Arizona College Foundation</u>
Assets	
Cash and cash equivalents	\$ 1,977
Investments	<u>3,398,378</u>
Total assets	<u>\$ 3,400,355</u>
Liabilities	
Accounts payable	<u>\$ 57,779</u>
Net Assets	
Temporarily restricted	122,303
Permanently restricted	<u>3,220,273</u>
Total net assets	<u>3,342,576</u>
Total liabilities and net assets	<u>\$ 3,400,355</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, 2010

	<u>Business-Type Activities</u>
Operating revenues:	
Tuition and fees (net of scholarship allowances of \$4,844,124)	\$ 5,341,242
Dormitory rentals and fees (net of scholarship allowances of \$254,206)	263,745
Other	<u>620,024</u>
Total operating revenues	<u>6,225,011</u>
Operating expenses:	
Educational and general:	
Instruction	20,832,207
Public service	230,119
Academic support	3,318,227
Student services	4,116,052
Institutional support	10,309,003
Operation and maintenance of plant	4,688,191
Scholarships	8,408,310
Auxiliary enterprises	1,012,010
Depreciation	<u>3,440,266</u>
Total operating expenses	<u>56,354,385</u>
Operating loss	<u>(50,129,374)</u>
Nonoperating revenues (expenses):	
Property taxes	43,455,031
State appropriations	4,935,100
Share of state sales taxes	556,505
Government grants and contracts	16,122,536
Private grants and gifts	596,877
Investment income	880,987
Interest expense on debt	(2,770,824)
Loss on disposal of capital assets	<u>(2,515)</u>
Net nonoperating revenues	<u>63,773,697</u>
Income before other revenues, expenses, gains or losses	13,644,323
Capital grants and gifts	<u>34,050</u>
Increase in net assets	13,678,373
Total net assets, July 1, 2009	<u>67,061,565</u>
Total net assets, June 30, 2010	<u><u>\$ 80,739,938</u></u>

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Activities—Component Unit
Year Ended June 30, 2010

	Central Arizona College Foundation			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains, and other support				
Contributions		\$ 147,667	\$ 357,853	\$ 505,520
Contributions—fundraisers		2,005		2,005
Dividends and interest		125,187		125,187
Net realized and unrealized gains on investments		<u>305,605</u>	<u> </u>	<u>305,605</u>
Total revenues, gains, and other support		<u>580,464</u>	<u>357,853</u>	<u>938,317</u>
Expenses and losses				
Scholarships	\$ 388,883			388,883
Public relations	20,395			20,395
Office operations expenses	<u>186,379</u>			<u>186,379</u>
Total expenses and losses	<u>595,657</u>			<u>595,657</u>
Net assets released from restrictions				
Transfers	<u>595,657</u>	<u>(458,161)</u>	<u>(137,496)</u>	<u> </u>
Changes in net assets		122,303	220,357	342,660
Net assets, July 1, 2009	<u> </u>	<u> </u>	<u>2,999,916</u>	<u>2,999,916</u>
Net assets, June 30, 2010	<u>\$ -</u>	<u>\$ 122,303</u>	<u>\$ 3,220,273</u>	<u>\$ 3,342,576</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, 2010

	<u>Business-Type Activities</u>
Cash flows from operating activities:	
Tuition and fees	\$ 5,208,972
Dormitory rentals and fees	255,816
Collection of loans to students	15,296
Other receipts	661,691
Payments to employees	(33,958,522)
Payments to suppliers and providers of goods and services	(9,043,394)
Payments to students for scholarships	(8,408,310)
Payments to students for loans	(15,444)
Other payments	<u>(1,003,823)</u>
Net cash used for operating activities	<u>(46,287,718)</u>
Cash flows from noncapital financing activities:	
Property taxes	42,907,525
State appropriations	4,935,100
Share of state sales taxes	556,505
Grants and contracts	16,153,771
Noncapital endowments and gifts	596,877
Federal Family Education Loans student loan receipts	7,642,848
Federal Family Education Loans student loan disbursements	(7,642,848)
Deposits held for others received	214,691
Deposits held for others disbursed	<u>(221,343)</u>
Net cash provided by noncapital financing activities	<u>65,143,126</u>
Cash flows from capital and related financing activities:	
Proceeds from the issuance of capital debt	40,000,000
Capital endowments and gifts	34,050
Bond underwriter deposits refunded	(800,000)
Principal paid on capital debt	(1,718,329)
Interest paid on capital debt	(1,830,693)
Purchases of capital assets	<u>(4,144,843)</u>
Net cash provided by capital and related financing activities	<u>31,540,185</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	2,105,343
Interest received on investments	880,987
Purchases of investments	<u>(2,127,505)</u>
Net cash provided by investing activities	<u>858,825</u>
Net increase in cash and cash equivalents	51,254,418
Cash and cash equivalents, July 1, 2009	<u>44,883,267</u>
Cash and cash equivalents, June 30, 2010	<u>\$ 96,137,685</u>

(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, 2010
(Concluded)

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (50,129,374)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	3,440,266
Changes in assets and liabilities:	
Increase in:	
Receivables, net	(135,534)
Student loans receivable	(148)
Accounts payable	435,071
Compensated absences payable	21,447
Insurance claims payable	83,432
Decrease in:	
Accrued liabilities	(2,878)
Net cash used for operating activities	\$ (46,287,718)
Significant noncash investing, capital, and noncapital financing activities:	
Disposal of capital assets being depreciated	\$ (16,704)
Elimination of accumulated depreciation on disposal of capital assets	14,189

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2010

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 by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

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

The Foundation is a legally separate, tax-exempt organization. It acts primarily as a fund-raising organization that receives gifts and bequests, administers those resources, and disburses payments to or on behalf of the District for scholarships and 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, 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. 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, 2010, the Foundation distributed \$543,584 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, 85128.

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.

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

A statement of revenues, expenses, and changes in net assets provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions. Operating revenues and expenses generally result from exchange transactions. Accordingly, revenues such as tuition and food service and dormitory 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.

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.

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.

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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, and cash and investments held by the County Treasurer. All investments are stated at fair value.

D. Capital Assets

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	N/A	N/A
Buildings	\$3,000	Straight-line	40 years
Modular buildings	3,000	Straight-line	20 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

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.

E. Investment Income

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

F. Compensated Absences

Compensated absences payable consists 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 fiscal year-end are forfeited. Beginning in fiscal year 2009, employees may elect to sell back a portion of unused vacation leave under the District's Vacation/Sick Leave Sell-Back program. For fiscal year 2010, employees must maintain a

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minimum of 25 days of vacation to participate in the sell-back program. An employee may sell back vacation hours accrued in excess of 25 days at the employee's current hourly rate at the time of sell-back. Also, 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 the employees. Therefore, a liability for sick leave benefits is not accrued in the financial statements. However, for employees who have 5 or more years of service, 50 percent of the unused sick leave benefits do vest at employee termination. Beginning in fiscal year 2009, employees may elect to sell back a portion of unused sick leave under the District's Vacation/Sick Leave Sell-Back program. For fiscal year 2010, employees must maintain a minimum of 75 days of sick leave to participate in the sell-back program. An employee may sell back sick leave hours in excess of 75 days at the employee's current hourly rate at the time of sell-back. Sick leave benefits are accrued to the extent it is probable that the District will compensate employees through cash payments upon termination. Those amounts are accrued as a liability in the financial statements.

G. 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 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.) requires 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.

Deposits—At June 30, 2010, the carrying amount of the District's deposits was \$9,478,683 and the bank balance was \$9,901,319. The District does not have a policy with respect to custodial credit risk. In November 2008, the FDIC's Board of Directors established a program called the Temporary Liquidity Guarantee Program (TLGP). This program was designed to assist in the stabilization of the nation's financial system. Under the Transaction Account Guarantee (TAG) program, a component of the TLGP, the FDIC guarantees all funds held in qualifying noninterest-bearing transaction accounts at participating insured depository institutions. Effective June 22, 2010, an amendment to 12 CFR 370, in part, extended the TAG program until December 31, 2010.

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Investments—The District's investments at June 30, 2010, were as follows:

Investment Type	Amount
County Treasurer's investment pool	\$86,634,998
Mutual funds—U.S. Treasury securities	<u>1,813,753</u>
Total	<u>\$88,448,751</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, 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, 2010, credit risk for the District's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
County Treasurer's investment pool	Unrated	Not applicable	\$86,634,998
Mutual funds—U.S. Treasury securities	Aaa	Moody's	<u>1,813,753</u>
Total			<u>\$88,448,751</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, 2010, the District had \$1,813,753 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.

Interest Rate Risk—The District does not have a formal policy for interest rate risk. At June 30, 2010, the District had the following investments in debt securities:

Investment Type	Investment Maturities	
	Amount	Less than 1 year
County Treasurer's investment pool	\$86,634,998	\$86,634,998
Mutual funds—U.S. Treasury securities	<u>1,813,753</u>	<u>1,813,753</u>
Total	<u>\$88,448,751</u>	<u>\$88,448,751</u>

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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	\$ 24,004	Cash and cash equivalents	\$55,906,905
Amount of deposits	9,478,683	Restricted assets:	
Amount of investments	<u>88,448,751</u>	Cash and investments held	
		by County Treasurer	40,230,780
		Cash and investments held	
		by trustees	<u>1,813,753</u>
Total	<u>\$97,951,438</u>	Total	<u>\$97,951,438</u>

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 2,545,147	\$ 1,657,651		\$ 4,202,798
Construction in progress	<u>110,250</u>	<u>123,824</u>	<u>\$18,059</u>	<u>216,015</u>
Total capital assets not being depreciated	<u>2,655,397</u>	<u>1,781,475</u>	<u>18,059</u>	<u>4,418,813</u>
Capital assets being depreciated:				
Buildings	49,953,525	694,821		50,648,346
Improvements other than buildings	7,375,906			7,375,906
Equipment	16,446,224	1,629,207	16,704	18,058,727
Library books	<u>1,621,410</u>	<u>57,399</u>		<u>1,678,809</u>
Total capital assets being depreciated	<u>75,397,065</u>	<u>2,381,427</u>	<u>16,704</u>	<u>77,761,788</u>
Less accumulated depreciation for:				
Buildings	19,595,680	1,237,583		20,833,263
Improvements other than buildings	2,839,474	470,517		3,309,991
Equipment	12,416,216	1,668,267	14,189	14,070,294
Library books	<u>1,285,511</u>	<u>63,899</u>		<u>1,349,410</u>
Total accumulated depreciation	<u>36,136,881</u>	<u>3,440,266</u>	<u>14,189</u>	<u>39,562,958</u>
Total capital assets being depreciated, net	<u>39,260,184</u>	<u>(1,058,839)</u>	<u>2,515</u>	<u>38,198,830</u>
Capital assets, net	<u>\$41,915,581</u>	<u>\$ 722,636</u>	<u>\$20,574</u>	<u>\$42,617,643</u>

The District has an active construction project for the expansion and renovation of the Superstition Mountain Campus, Phase I, with an estimated remaining commitment at June 30, 2010, of \$21.2 million. This project will be funded from general obligation bonds.

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Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within 1 year
Compensated absences payable	<u>\$ 1,997,285</u>	<u>\$ 1,466,858</u>	<u>\$1,445,441</u>	<u>\$ 2,018,732</u>	<u>\$1,314,866</u>
General obligation bonds payable		\$40,000,000		\$40,000,000	\$ 895,000
Revenue bonds payable	\$ 7,565,000		\$ 620,000	6,945,000	645,000
Pledged revenue obligations payable	9,705,000		835,000	8,870,000	855,000
Capital leases payable	<u>4,930,728</u>		<u>263,329</u>	<u>4,667,399</u>	<u>271,840</u>
Total long-term debt	<u>\$22,200,728</u>	<u>\$40,000,000</u>	<u>\$1,718,329</u>	<u>\$60,482,399</u>	<u>\$2,666,840</u>

Bonds—The District's bonded debt consists of general obligation bonds and revenue bonds that are generally callable with interest payable semiannually. Bond proceeds pay primarily for acquiring or constructing capital facilities. In addition, a portion of the revenue bonds proceeds for the Series 2004 were used to advance refund a prior higher-rate revenue bond issue, which was completely defeased in fiscal year 2009. The District repays general obligation bonds from voter-approved property taxes. Revenue bonds are repaid from tuition and fees and dormitory rental fees. During the year, the District issued general obligation bonds totaling \$40 million to fund the purchase of land, the construction of new facilities, the renovation of existing facilities, and the purchase of equipment. Of the total general obligation bonds originally authorized in 2008, \$58,975,000 remain unissued. Bonds outstanding at June 30, 2010, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
General Obligation Bonds—Series A	\$40,000,000	7/1/10-34	4.0-5.25%	\$40,000,000
Revenue Bonds—Series 2004	10,500,000	7/1/09-18	4.0-4.5%	6,945,000

The following schedule details debt service requirements to maturity for the District's bonds payable at June 30, 2010:

Year ending June 30,	Revenue Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 645,000	\$ 284,703	\$ 895,000	\$ 1,919,492
2012	675,000	257,478	930,000	1,882,992
2013	705,000	228,134	970,000	1,844,992
2014	735,000	196,175	1,005,000	1,805,492
2015	765,000	162,425	1,045,000	1,764,492
2016-2020	3,420,000	295,056	5,900,000	8,140,560
2021-2025			7,370,000	6,588,460
2026-2030			9,465,000	4,497,285
2031-2035			<u>12,420,000</u>	<u>1,702,547</u>
Total	<u>\$6,945,000</u>	<u>\$1,423,971</u>	<u>\$40,000,000</u>	<u>\$30,146,312</u>

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Pledged revenue obligations—The District's pledged revenue obligations were issued to provide monies to construct a student services building, shipping and receiving facility, dormitory, and a computer commons facility. In addition, a portion of the pledged revenue obligations for the Series 2004 were used to advance refund prior higher-rate pledge revenue obligations, which were completely defeased in fiscal year 2009. The obligations are secured by tuition and fees and dormitory rental fees of the District and are callable with interest payable semiannually.

Pledged revenue obligation requirements at June 30, 2010, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Pledged Revenue Obligations— Series 2004	\$13,530,000	7/1/09-18	2.5-4.125%	\$8,870,000

The following schedule details debt service requirements to maturity for the District's pledged revenue obligations payable at June 30, 2010:

Year Ending June 30,	<u>Pledged Revenue Obligations</u>	
	Principal	Interest
2011	\$ 855,000	\$ 316,675
2012	880,000	290,650
2013	910,000	262,663
2014	940,000	229,075
2015	980,000	190,675
2016-19	<u>4,305,000</u>	<u>356,213</u>
Total	<u>\$8,870,000</u>	<u>\$1,645,951</u>

Capital leases—The District has acquired energy savings equipment under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through capital leases are as follows:

Energy savings equipment	\$5,336,814
Less: accumulated depreciation	<u>1,189,217</u>
Carrying value	<u>\$4,147,597</u>

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The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2010:

Year ending June 30	
2011	\$ 471,948
2012	468,933
2013	469,810
2014	470,734
2015	471,703
2016-20	2,374,743
2021-23	<u>1,439,619</u>
Total minimum lease payments	6,167,490
Less amount representing interest	<u>1,500,091</u>
Present value of net minimum lease payments	<u>\$4,667,399</u>

Note 5 - Pledges of Future Revenues

The District has pledged, as security for its revenue bonds and pledged revenue obligations, a portion of the District's tuition and fees and dormitory rentals and fees revenue. The revenue bonds and pledged revenue obligations were issued by the District in 2004 in the amount of \$10,500,000 and \$13,530,000, respectively. The debt was issued to provide financing for various capital projects and to refinance outstanding revenue bonds and pledged revenue obligations of the District. The revenue bonds and pledged revenue obligations are payable through fiscal year 2019. The District has committed to designate each year, from the tuition and fee revenue, amounts sufficient to cover the principal and interest requirements on the District's debt. The total principal and interest remaining on the debt is \$18,884,922, with annual requirements ranging from \$2,090,543 to \$2,105,797. Tuition and fee revenue, from which the designations will be made, has averaged approximately \$4,865,267 over the prior 5 fiscal years. For the current year, principal and interest the District paid and the total tuition and fees and dormitory rentals and fees revenue the District recognized were \$2,105,343 and \$5,604,987, respectively.

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 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, and property, automobile, boiler, and machinery liability; 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 single year. The District will be charged for any

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such assessment in the following year. 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 any of these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years except in the year ended June 30, 2009, when the District was charged an additional assessment of \$22,500 for two insurance claims.

Insurance claims—The District finances uninsured risks of loss for certain health care benefits to eligible employees and dependents. The healthcare plan provides coverage for claims up to \$95,000 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. Settled claims have not exceeded the District's coverage for this plan in any of the past 3 fiscal years. An independent administrator provides claim and recordkeeping services for the plan.

The insurance claims-payable liability of \$670,422 at June 30, 2010, 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 claims reported during the year, prior-year claims of continuing duration, and claims incurred but not reported as of June 30, 2010. Changes in the District's claims payable for the years ended June 30, 2010 and 2009 were as follows:

	2010	2009
Claims payable, beginning of year	\$ 586,990	\$ 542,000
Current year claims and changes in estimates	3,616,119	3,041,138
Claim payments	<u>(3,532,687)</u>	<u>(2,996,148)</u>
Claims payable, end of year	<u>\$ 670,422</u>	<u>\$ 586,990</u>

Note 7 - Operating Leases

The District leases classroom and office space under provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases were \$673,333 for the year ended June 30, 2010. The operating leases have remaining noncancelable terms of 1 to 5 years and provide renewal options. The future minimum payments required under the operating leases at June 30, 2010, were as follows:

Year ending June 30		
2011	\$	521,269
2012		286,061
2013		276,297
2014		265,797
2015		<u>203,374</u>
Total minimum lease payments		<u>\$1,552,798</u>

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Note 8 - Pension and Other Postemployment Benefits

Plan description—The District contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplemental Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, 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, 2010, active plan members were required by statute to contribute at the actuarially determined rate of 9.4 percent (9.0 percent retirement and 0.4 percent long-term disability) of the members' annual covered payroll and the District was required by statute to contribute at the actuarially determined rate of 9.4 percent (8.34 percent for retirement, 0.66 percent for health insurance premium, and 0.4 percent for long-term disability) of the members' annual covered payroll.

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,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2010	\$1,786,863	\$141,406	\$83,923
2009	1,594,951	191,634	97,021
2008	1,495,102	195,043	90,928

Note 9 - 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:

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Personal services	\$34,060,523
Contract services	3,329,125
Supplies and other services	3,757,186
Communications and utilities	1,902,229
Scholarships	8,408,310
Depreciation	3,440,266
Other	<u>1,456,746</u>
Total	<u>\$56,354,385</u>

Note 10 - Subsequent Events

In fiscal year 2011, the District completed negotiations for the purchase of approximately 217 acres of land for a new campus site in the Town of Maricopa. The cost will be approximately \$13 million, to be funded from general obligation bond proceeds. The District has also completed the master plan and Phase 1 design of the Superstition Mountain Campus expansion. Phase 1 construction began in February 2011, with a total estimated project cost of \$18.1 million.

Note 11 - 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 statement 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.

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Investments—The Foundation investments primarily consist of stocks, bonds, and mutual funds. In accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-profit Organizations*, The Foundation carries investments in equity and debt securities at fair value in the statement of financial position. Realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in net assets. Investments consist of the following:

Bonds	\$ 211,233
Unit Trusts	300,537
Stocks	922,374
Certificates of Deposits	502,283
Mutual Funds	<u>1,461,951</u>
Total	<u>\$3,398,378</u>

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	\$1,538,896
Other restricted scholarship programs	1,513,638
Activities of the Foundation	<u>167,739</u>
Total	<u>\$3,220,273</u>

Net assets were released from donor restrictions or by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors.

Cash/Credit Risk—Financial instruments that subject the Foundation to potential concentrations of credit risk consists principally of cash and the investments noted above. The Foundation has concentrated its cash/credit risk over in one bank and one investment firm both located in the same geographic region. Cash balances are under the Federal Deposit Insurance Corporation up to a limit of \$250,000. At June 30, 2010, the Foundation's balances were \$1,977.

Supplementary Information

Pinal County Community College District
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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Hispanic-Serving Institutions Assisting Communities	14.514		\$ <u>147,235</u>
U.S. Department of Labor			
Community Based Job Training Grants	17.269		<u>785,702</u>
National Science Foundation			
Engineering Grants, passed through Arizona State University	47.041	836050	<u>14,973</u>
U.S. Small Business Administration			
Small Business Development Centers, passed through Maricopa County Community College District	59.037	9-603001-Z-0003-17, 0-603001-Z-0003-18	<u>65,416</u>
U.S. Department of Education			
Adult Education—Basic Grants to States, passed through the Arizona Department of Education	84.002	10FAEABE-070612-06A, 10FAEACF-070612-08A, 10FAEAEF-070612-04A, 10FAEAEI-070612-03A	309,503
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		55,469
Federal Family Education Loans	84.032		7,605,989
Federal Work-Study Program	84.033		104,026
Federal Pell Grant Program	84.063		10,710,292
Academic Competitiveness Grants	84.375		<u>74,212</u>
Total Student Financial Assistance Cluster			<u>18,549,988</u>
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	ED08-0014-08	107,395
Higher Education—Institutional Aid	84.031		1,303,539
TRIO—Student Support Services	84.042		251,504
Career and Technical Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	09FCTDBG-970612-01A, 10FCTDBG-070612-01A	193,469

(Continued)

See accompanying notes to schedule.

Pinal County Community College District
(Central Arizona College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010
(Concluded)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
Leveraging Educational Assistance Partnership, passed through the Arizona Commission for Postsecondary Education	84.069	None	\$ 6,445
Fund for the Improvement of Postsecondary Education	84.116		197,091
Tech-Prep Education, passed through Pinal County Superintendent Consortium	84.243	09FCTDTP-970734-01A, 10FCTDTP-070734-01A	8,504
ARRA—State Fiscal Stabilization Fund—Education State Grants, Recovery Act, passed through the Arizona Governor's Office of Economic Recovery	84.394	GVA60003-860180838	<u>574,599</u>
Total U.S. Department of Education			<u>21,502,037</u>
Corporation for National and Community Service			
AmeriCorps, passed through the Arizona Governor's Office for Children, Youth and Families	94.006	AC-VSG-10-0273-01	<u>18,683</u>
Total Expenditures of Federal Awards			<u><u>\$ 22,534,046</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, 2010

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 2010 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

From the federal expenditures presented in the schedule, the District awarded the following to subrecipients:

Program Title	CFDA Number	Amount
Higher Education—Institutional Aid	84.031	\$121,289

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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
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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 25, 2011. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Central Arizona College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. The financial statements of the Central Arizona College Foundation were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that is reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 10-01 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 10-02 and 10-03 to be significant deficiencies.

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 and those of the other auditors disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Questioned Costs as item 10-04.

Pinal County Community College District's responses to the findings identified in our audit are presented on pages 44 through 48. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, others within the District, 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

March 25, 2011



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 with Requirements
That Could Have a Direct and Material Effect on 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 Pinal 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, 2010. 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.

As described in items 10-102 through 10-104 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with the requirements regarding the Davis-Bacon Act, procurement and suspension and debarment, and reporting that are applicable to its Higher Education—Institutional Aid program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Pinal County Community College District did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the Higher Education—Institutional Aid program for the year ended June 30, 2010. Also, in our opinion, Pinal County Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133, and that is described in the accompanying Schedule of Findings and Questioned Costs as item 10-105.

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 the requirements that could have a direct and material effect on a major federal program to determine the 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, 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and others that we consider to be 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 a 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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-101, 10-102, 10-103, and 10-104 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or 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 10-105 to be a significant deficiency.

Pinal County Community College District's responses to the findings identified in our audit are presented on pages 44 through 48. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, others within the District, 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

March 25, 2011

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Pinal County Community College District
 (Central Arizona College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2010

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified	
		Yes	No
Internal control over financial reporting:			
Material weaknesses identified?	<u>X</u>	___	
Significant deficiencies identified?	<u>X</u>	___	
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: Unqualified for all major programs except for the Higher Education—Institutional Aid program for which an adverse opinion was issued.			
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>
17.269	Community Based Job Training Grants
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.032	Federal Family Education Loans
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grants
84.031	Higher Education—Institutional Aid
84.394	ARRA—State Fiscal Stabilization Fund—Education State Grants, Recovery Act

Pinal County Community College District
 (Central Arizona College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2010

Dollar threshold used to distinguish between Type A and Type B programs: \$447,842

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 _____

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Financial Statement Findings

10-01

The District should strengthen access controls over its computer systems

Criteria: Logical access controls help ensure that only authorized users have access to the District's computer systems and sensitive data. These controls are critical in preventing or detecting unauthorized use; damage, loss, or modification of programs and data; and misuse of sensitive information. Employees should have access to only those applications necessary for their job responsibilities. When circumstances exist that require an employee to have heightened access privileges, a supervisor should review the employee's system activity.

Condition and context: The District did not follow its policies and procedures to ensure that system users were granted access rights to only those functions necessary to perform their job responsibilities, and did not have policies and procedures to monitor the activities of users with unlimited system access. Auditors reviewed access rights for the general ledger including the payroll, purchasing, and accounts payable modules, and found that information technology programmers had unnecessary access to all modules. In addition, a significant number of employees were granted access to applications that were incompatible with their job responsibilities. Also, for all five terminated employees tested, their general ledger user access was not removed until 10 to 20 months after their termination dates.

Effect: Users may have access to unauthorized information and the ability to perform unauthorized functions. Excessive access rights may allow users to perpetrate and conceal errors and irregularities, resulting in fraud and the possible misstatement of financial information. This finding is a material weakness in internal control over financial reporting.

Cause: The District did not correct access to the system in a timely manner. In addition, the District did not follow its policies and procedures so that timely notification of terminations was provided to those responsible for removing system access.

Recommendation: To help ensure that incompatible or inappropriate rights are not assigned, the District should perform a comprehensive review of all existing system users' access. If the District finds inappropriate system access, it should revoke that access immediately. In addition, the District should periodically monitor the activities of users with unlimited system access. Further, the District should develop a procedure for its information technology department to provide timely access removals for terminated or transferred employees.

This finding is similar to a prior-year finding.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

10-02

The District should monitor its service provider for its employee health plans

Criteria: Bank accounts from which outside parties can make withdrawals should be adequately safeguarded, and financial resources should be limited to meet only the current month's activities. Accordingly, the District should monitor its employee health plans' bank account and review monthly reconciliations to protect the District's monies.

Condition and context: The District relied on a consulting firm to reconcile its employee health plans' bank account on a monthly basis and provide financial reports of claims paid. In addition, the consulting firm was an authorized signer on the employee health plans' bank account. Even though the District received the reports from the consulting firm and third-party administrators, it did not adequately monitor the consulting firm during fiscal year 2010. The District did not begin reviewing these reports and performing detailed reconciliations of the balances until fiscal year 2011.

Effect: There is a potential for fraud, waste, and abuse. This finding is a significant deficiency in internal control over financial reporting.

Cause: The District did not implement procedures to monitor its consulting firm.

Recommendation: The District should monitor financial activity performed on its behalf by its consultant by reviewing the monthly bank reconciliations for its employees health plans' bank account. All unusual withdrawals or other transactions posted to the account should be investigated.

This finding is similar to a prior-year finding.

10-03

The District should establish and monitor policies and procedures over its capital assets

Criteria: The District should have strong internal controls over capital assets to ensure that its capital assets are safeguarded and properly reported in the financial statements. Additionally, in accordance with *Governmental Accounting Standards Board Statement No. 51*, the District should establish policies and procedures for reporting intangible assets, such as computer software and trademarks.

Condition and context: In June 2010, the District performed a physical inventory of all assets with an estimated cost exceeding \$1,000 as required by its policies, but did not reconcile the inventory results to its June 30, 2010, capital assets list. The inventory results indicated that equipment items below the District's capitalization threshold totaling approximately \$1.7 million were on the list and capitalized items totaling over \$500,000 were either missing, obsolete, or improperly disposed of. However, the District did not investigate and resolve these discrepancies. In addition, the District did not have policies and procedures for identifying, valuing, and recording intangible assets to ensure that these assets were capitalized and reported in accordance with generally accepted accounting principles.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Effect: Not developing and following policies and procedures over capital assets, including intangible assets, could result in a misstatement of the financial statements and increase the risk of loss, theft, or misuse of the District's capital assets. This finding is a significant deficiency in internal control over financial reporting for capital assets.

Cause: The District did not follow its policies and procedures to ensure its capital assets list was reconciled to and updated for the physical inventory performed. In addition, the District did not develop policies and procedures for intangible assets since it believed that these assets had an immaterial effect on the current year's financial statements.

Recommendation: To help ensure that its capital assets are accounted for and properly reported in the financial statements, the District should perform a physical inventory of its capital assets at least every 2 years, reconcile the inventory results to its capital assets list, resolve discrepancies, and update the list. In addition, the District should evaluate the effect of implementing new accounting and reporting standards related to capital assets, such as accounting for and reporting intangible assets. As a result, it needs to establish policies and procedures for identifying, valuing, and recording these assets to ensure its financial statements are prepared in accordance with generally accepted accounting principles.

10-04

The District should strengthen internal controls over purchasing

Criteria: The District spends a significant amount of public monies acquiring goods and services; therefore, it is essential that the District follow procedures designed to help ensure that it receives the best possible value for the public monies it spends. In addition, the District is responsible for ensuring that competitive purchases are appropriate, approved, and supported.

Condition and context: During the year, the District spent approximately \$7 million for goods and services from vendors and contractors that were subject to its competitive purchasing policies. However, the District did not always follow these policies when it purchased goods and services. In addition, the District did not have any policies to follow when using the contracts of other governmental entities or purchasing cooperatives to acquire goods and services. Specifically, auditors tested 20 vendors subject to the District's competitive purchasing policies and noted the following deficiencies:

- For 6 vendors that received over \$1.4 million, the District obtained services without using competitive purchasing procedures as required by its policies. In addition, the District did not have a written contract or agreement with one of these vendors who received over \$17,000.
- For 8 contracts totaling over \$1 million that were procured using another governmental entity or purchasing cooperative, the District did not exercise due diligence to ensure that the policies and procedures used by the entity or cooperative were consistent with those of the District. Further, one of these contracts had expired and the District did not verify whether the contract was renewed.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Effect: The District did not comply with its own policies when acquiring goods and services. Further, the District's policies did not include detailed procedures and guidelines for employees to follow when making purchases. This could have resulted in contracts that were not advantageous to the District. This finding is an instance of noncompliance.

Cause: The District did not ensure that it complied with its purchasing policies and did not provide sufficient procedures and guidelines for employees to follow when purchasing goods and services. Furthermore, the District's policies did not require it to obtain written contracts for professional services. In addition, the District was not aware that it should have performed and documented due diligence procedures for goods and services procured using other governmental entities' or purchasing cooperatives' contracts, and therefore, had no policies and procedures for procuring goods and services in this manner.

Recommendation: The District should strengthen its existing purchasing policies using the State Procurement Code or the policies established by other Arizona community college districts as a guideline. In addition, the District needs to develop detailed procedures and guidelines for employees to follow when purchasing goods and services and provide training to employees involved in purchasing. These procedures should require that the District:

- Obtain competitive sealed bids or proposals, as appropriate, for all purchases of construction, materials, and services exceeding the District's competitive bid threshold.
- Prepare and maintain a bid file that contains a copy of the invitation to bid or an affidavit of publication, bid specifications, bids received from vendors, correspondence, and other documents related to the competitive bid and vendor selection process. This should include supporting documentation justifying vendor selection if the vendor with the lowest price quotation is not selected. Retain bid files in accordance with federal and state regulations.
- Obtain written contracts for all services that include the scope of the work to be performed, the amounts to be charged to the District, and other pertinent contract terms. Written contracts should be obtained prior to the vendor's commencement of the work and the District's payment to the vendor.
- Require a minimum number of vendors be contacted for oral and written price quotations and document vendors contacted and their reasons for not providing quotations, if applicable.
- Perform and document due diligence procedures to verify that the other entity used purchasing policies and procedures that were consistent with the District's for at least a sample of the contracts it uses from each entity. Alternatively, obtain assurance from the entity that its purchasing procedures have been reviewed by an independent public accountant or other party.
- Establish criteria for sole source determinations and require that documentation be prepared that clearly justifies there are no reasonable alternative sources prior to acquiring the goods and services.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Federal Award Findings and Questioned Costs

10-101

Student Financial Assistance Cluster:

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

84.032 **Federal Family Education Loans**

84.033 **Federal Work Study Program**

84.063 **Federal Pell Grant Program**

84.375 **Academic Competitiveness Grants**

U.S. Department of Education

Award Period: July 1, 2009 through June 30, 2010

Activities Allowed or Unallowed and Eligibility

Questioned Cost: None

Criteria: 34 Code of Federal Regulations (CFR) §74.21 requires that effective internal control be maintained for all financial management systems to ensure accurate, current, and complete disclosure of financial activities in accordance with the financial reporting requirements. Therefore, it is critical for the District to establish adequate internal controls to ensure the integrity of information processed through the student financial aid module.

Condition and context: The District did not follow its policies and procedures to ensure that system users were granted access rights to only those functions necessary to perform their job responsibilities. This resulted in users having greater access rights than necessary for its student financial aid module. Auditors reviewed access rights to critical screens used to determine eligibility within the student financial aid module and noted that 19 employees had inappropriate access for 11 months of fiscal year 2010. The District either removed or modified access rights for those 19 employees in June 2010.

Effect: Users may have access to unauthorized information and the ability to perform unauthorized functions. Excessive access rights may allow users the ability to create fictitious students, alter disbursement amounts, and change other critical student information. This finding is a material weakness in internal control over compliance with the Cluster's activities allowed or unallowed and eligibility requirements. However, based on the sample tested, auditors did not note any noncompliance with these compliance requirements.

Cause: The student financial aid administrator was not aware that inappropriate access existed to critical screens of the student financial aid module until the end of the fiscal year.

Recommendation: To help ensure that incompatible or inappropriate rights are not assigned, the District should perform a review of student financial aid module users' access on a periodic basis. If the District finds inappropriate system access, it should revoke or modify that access immediately.

This finding is similar to a prior-year finding.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

10-102

CFDA No.: 84.031 **Higher Education—Institutional Aid**

U.S. Department of Education

Award Period: October 1, 2008 through September 30, 2010

Award Number: P031C080002

Davis-Bacon Act

Questioned Cost: Unknown

Criteria: To comply with the District's grant agreement and the Davis-Bacon Act, as set forth in 20 United States Code (USC) §1232(b), the District must require all contractors and subcontractors who are awarded more than \$2,000 in federal monies for construction and minor remodeling projects to pay wages at rates not less than those prevailing for similar projects in the locality, as determined by the U.S. Secretary of Labor.

Condition and context: The District spent \$1.3 million in program monies during the year, a portion of which was used to renovate school facilities. The District was required to comply with Davis-Bacon Act requirements; however, it paid contractors \$231,725 during the year for construction projects without ensuring that the contractors and subcontractors paid prevailing wages.

Effect: The District did not prepare documentation to demonstrate that it had complied with Davis-Bacon Act requirements. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with Davis-Bacon Act requirements.

Cause: The District was not aware that the Davis-Bacon Act was applicable to the program.

Recommendation: To help ensure that the District complies with its grant agreement and Davis-Bacon Act requirements, it should require contractors and subcontractors that are awarded federal monies in excess of \$2,000 to pay employees the prevailing wage rates established by the U.S. Department of Labor. In addition, the District should request and review contractors' and subcontractors' payroll certification reports to verify that prevailing wages were paid. If the District determines that the contractors or subcontractors did not pay prevailing wages or if the District does not receive payroll certification reports, it should withhold payment until the requirements are met.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

10-103

CFDA No.: 84.031 **Higher Education—Institutional Aid**

U.S. Department of Education

Award Period: October 1, 2007 through September 30, 2010

Award Number: P031S050056, P031C080002

Procurement and Suspension and Debarment

Questioned Cost: Unknown

Criteria: 34 CFR §74.46 requires the District to maintain procurement records and files supporting the basis for the contractor selected, justification for lack of competition when competitive bids or offers are not obtained, and the basis for award cost or price. In addition, the District should have internal controls to ensure that contracts and subawards over \$25,000 are not made to an entity that had been suspended or debarred from doing business with the federal government to comply with 34 CFR §74.13.

Condition and context: As described in item 10-04, the District needs to strengthen internal controls over purchasing. Specifically, the District paid contractors \$597,386 for goods and services during the year using program monies. For some of these contractors, the District used other governmental entities or purchasing cooperatives to procure these contracts. However, for 4 of 8 contractors tested, the District did not perform due diligence procedures to verify that the other entity used purchasing policies and procedures that were consistent with those of the District. Further, 1 of the 4 contracts had expired, and the District did not verify whether the contract was renewed. Additionally, for 1 of the 8 contractors tested, the District did not perform any procurement procedures prior to obtaining the goods or services. Finally, for 2 of the 8 contractors tested, the District did not verify that the vendors had not been suspended or debarred from doing business with the federal government.

Effect: The District did not comply with the program's procurement and suspension and debarment requirements and may have awarded federal monies to a contractor who was suspended or debarred. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this purchasing finding. Auditors extended auditing procedures and determined that the contractors were not suspended or debarred; therefore, no questioned costs were noted. This finding is a material weakness in internal control over compliance and material noncompliance with the program's requirements for procurement and suspension and debarment. This finding has the potential to affect other federal programs the District administered.

Cause: The District was not aware that it should have performed and documented due diligence procedures on other entities' contracts if used. In addition, the District did not have adequate policies and procedures to ensure that all contracts were competitively bid and that contractors were not suspended or debarred from doing business with the federal government.

Recommendation: As described in item 10-04, the District should strengthen its existing purchasing policies and develop detailed procedures and guidelines to help ensure that competitive purchasing practices are followed. In addition, the District should implement procedures to verify that contracts over \$25,000 are with parties that have not been suspended or debarred from doing business with the federal government.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

10-104

CFDA No.: 84.031 **Higher Education—Institutional Aid**

U.S. Department of Education

Award Period: October 1, 2008 through September 30, 2010

Award Number: P031C080002

Reporting

Questioned Cost: N/A

Criteria: To comply with 34 CFR §75.118, the District should review all reports for accuracy before submitting them to the federal awarding agency.

Condition and context: The District did not accurately prepare one of the program's Annual Performance Reports submitted for the fiscal year 2010 grant period. Specifically, for 1 of 2 Annual Performance Reports tested, auditors noted that the District reported program expenditures of \$1,285,725; however, it overstated this amount by \$144,286 due to undetected errors.

Effect: The District did not comply with the program's reporting requirements. However, the District resubmitted the report after auditors made the District aware of the errors. This finding is a material weakness in internal control over compliance and material noncompliance with the program's reporting requirements.

Cause: The District did not perform careful reviews to ensure that the report was accurately prepared and mathematically correct. Specifically, the District reported expenditures in the wrong months which overstated expenditures.

Recommendation: The District should require a second employee to review the Annual Performance Reports for completeness and accuracy prior to submitting them to the federal awarding agency.

10-105

CFDA No.: 17.269 **Community Based Job Training Grants**

U.S. Department of Labor

Award Period: January 1, 2007 through June 30, 2010

Award Number: CB-15960-07-60-A-4

Earmarking and Reporting

Questioned Cost: N/A

Criteria: In accordance with the program's grant agreement, the District is required to submit Quarterly Progress Reports to the federal awarding agency no later than 30 days after the end of each quarter to demonstrate that it has met the program's earmarking requirements.

Condition and context: The District did not prepare and submit two of the program's Quarterly Progress Reports during fiscal year 2010 as required by the grant agreement. Specifically, the District did not prepare the Quarterly Progress Reports for the quarters ended March 31, 2010 and June 30, 2010.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Effect: There is the potential risk that the District would not be able to demonstrate that it met the program's earmarking requirements to the federal awarding agency. However, auditors performed further auditing procedures and determined that the District had met the program's earmarking requirements for the grant award period. This finding is a significant deficiency in internal control over compliance with the program's earmarking and reporting requirements and noncompliance with the program's reporting requirements.

Cause: The District did not prepare and submit these reports because of an oversight that occurred when hiring a new grant coordinator.

Recommendation: The District should ensure that Quarterly Progress Reports are prepared and submitted to the federal awarding agency for all active grant agreements.

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March 10, 2011

Debbie Davenport
Auditor General
2910 North 44th 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,

Chris Wodka
Vice President of Finance and Administration

Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2010

Financial Statement Findings

10-01

The District should strengthen access controls over its computer systems

Chris Wodka, Vice President of Finance and Administration
Anticipated Completion Date: June, 2011

Corrective Action Plan – The District is in the process of modifying system access to ensure that incompatible or inappropriate rights are not assigned. The District has established procedures to monitor the activities of superusers.

10-02

The District should monitor its service provider for its employee health plans

Chris Wodka, Vice President of Finance and Administration
Anticipated Completion Date: March, 2011

Corrective Action Plan – Procedures have been strengthened to ensure that the District adequately monitors and reconciles the employee benefits bank account on a monthly basis. Procedures have also been established to review monthly financial reports from the consulting firm.

10-03

The District should establish and monitor policies and procedures over its capital assets

Chris Wodka, Vice President of Finance and Administration
Anticipated Completion Date: April, 2011

Corrective Action Plan – The District is strengthening procedures for capital assets to ensure that the periodic physical inventory results are reconciled to the capital assets list. In addition, the District will investigate and update the capital assets list for any missing, obsolete, or improperly disposed of capital assets. The District has also prepared procedures for identifying, valuing, and recording intangible assets.

Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2010

10-04

The District should strengthen internal controls over purchasing

Chris Wodka, Vice President of Finance and Administration
Anticipated Completion Date: April, 2011

Corrective Action Plan – The District has strengthened purchasing practices to ensure that purchasing policies and procedures will be followed. In addition, purchasing procedures will be strengthened pertaining to the purchase of goods and services on contract, the use of other governmental contracts, or the use of purchasing cooperatives. In addition, employee purchasing guidelines will be reviewed and revised as needed to ensure that purchases comply with the district's policies and procedures.

Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2010

Federal Award Findings and Questioned Costs

10-101

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants
84.032 Federal Family Education Loans
84.033 Federal Work-Study Program
84.063 Federal Pell Grant Program
84.375 Academic Competitiveness Grants

Chris Wodka, Vice President of Finance and Administration

Anticipated Completion Date: June, 2010

Corrective Action Plan – The District is in the process of modifying system access to ensure that incompatible or inappropriate rights are not assigned. In June, 2010, the District corrected access rights for those who were identified as having inappropriate access to the student financial aid module.

10-102

CFDA No.: 84.031 Higher Education - Institutional Aid

Chris Wodka, Vice President of Finance and Administration

Anticipated Completion Date: March, 2011

Corrective Action Plan – Procedures have been established to ensure that the District complies with Davis-Bacon Act requirements.

10-103

CFDA No.: 84.031 Higher Education - Institutional Aid

Chris Wodka, Vice President of Finance and Administration

Anticipated Completion Date: March, 2011

Corrective Action Plan – The District has strengthened purchasing practices to ensure that purchasing policies and procedures will be followed. In addition, purchasing procedures will be strengthened pertaining to the purchase of goods and services on contract, the use of other governmental contracts, or the use of purchasing cooperatives. In addition, employee purchasing guidelines will be reviewed and revised as needed to ensure that purchases comply with the district's policies and procedures, including the District's suspension and debarment procedure.

Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2010

10-104

CFDA No.: 84.031 Higher Education - Institutional Aid

Chris Wodka, Vice President of Finance and Administration
Anticipated Completion Date: March, 2011

Corrective Action Plan – The District corrected and resubmitted the report after the compilation errors were identified. The District has also strengthened procedures to ensure that program reports are independently reviewed for completeness and accuracy prior to submission.

10-105

CFDA No.: 17.269 Community Based Job Training

Chris Wodka, Vice President of Finance and Administration
Anticipated Completion Date: March, 2011

Corrective Action Plan – The District has strengthened procedures to ensure that all required reports are prepared and submitted to the granting agencies in a timely manner.

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March 10, 2011

Debbie Davenport
Auditor General
2910 North 44th 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,

Chris Wodka
Vice President of Finance and Administration

Pinal County Community College District
(Central Arizona College)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010

Federal Award Findings and Questioned Costs

07-101

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants
84.032 Federal Family Education Loans
84.033 Federal Work-Study Program
84.063 Federal Pell Grant Program
84.375 Academic Competitiveness Grants

Status – Fully corrected.

07-102

CFDA No.: 84.031 Higher Education - Institutional Aid

Status – Partially corrected. In April, 2009, the District established procedures to address the federal requirements for suspension and debarment. Additional training has occurred to ensure that procurement practices comply with established procurement, suspension and debarment procedures.

08-101

CFDA No.: 17.269 Community Based Job Training Grants

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants
84.032 Federal Family Education Loans
84.033 Federal Work-Study Program
84.063 Federal Pell Grant Program
84.375 Academic Competitiveness Grants

CFDA No.: 84.031 Higher Education – Institutional Aid

Status – Fully corrected.

08-102

CFDA No.: 17.269 Community Based Job Training Grants
84.031 Higher Education – Institutional Aid

Status – Partially corrected. In April, 2009, the District established procedures to address the federal requirements for suspension and debarment. Additional training has occurred to ensure that procurement practices comply with established procurement, suspension and debarment procedures.

Pinal County Community College District
(Central Arizona College)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010

Federal Award Findings and Questioned Costs

09-101

CFDA No.: 17.269 Community Based Job Training Grants

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants

84.032 Federal Family Education Loans

84.033 Federal Work-Study Program

84.063 Federal Pell Grant Program

84.375 Academic Competitiveness Grants

CFDA No.: 84.031 Higher Education - Institutional Aid

Status – Fully corrected.

09-102

CFDA No.: 84.031 Higher Education - Institutional Aid

Status – Fully corrected.

09-103

CFDA No.: 84.031 Higher Education - Institutional Aid

Status – Partially corrected. In April, 2009, the District established procedures to address the federal requirements for suspension and debarment. Additional training has occurred to ensure that procurement practices comply with established procurement, suspension and debarment procedures.

09-104

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants

84.032 Federal Family Education Loans

84.033 Federal Work-Study Program

84.063 Federal Pell Grant Program

84.375 Academic Competitiveness Grants

Status – Partially corrected. The District is in the process of modifying system access to ensure that incompatible or inappropriate rights are not assigned. In June, 2010, the District corrected access rights for those who were identified as having inappropriate access to the student financial aid module.