

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

**Pinal County Community  
College District**

(Central Arizona College)

Year Ended June 30, 2012

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**Debra K. Davenport**  
Auditor General

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Pinal County Community College District  
(Central Arizona College)  
Single Audit Reporting Package  
Year Ended June 30, 2012

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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, 2012, 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, 2012, 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.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages i through viii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards,

which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, 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

December 20, 2012

Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Year Ended June 30, 2012

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, 2012. 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, 2012. The statement shows the District's assets, liabilities, and net assets. Net assets are defined as total assets less total liabilities and, as such, reflect the institutional equity in the District's total assets.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and changes for the fiscal year ended June 30, 2012. 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 the year ended June 30, 2012. 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  
Year Ended June 30, 2012

Condensed Financial Information

<b><u>Net Assets—Primary Government</u></b>	<b><i>As of</i></b> <b><u>June 30, 2012</u></b>	<b><i>As of</i></b> <b><u>June 30, 2011</u></b>
Assets:		
Current assets	\$ 79,922,324	\$ 73,913,480
Noncurrent assets, other than capital assets	23,353,698	16,531,408
Capital assets, net	<u>119,451,187</u>	<u>66,410,719</u>
Total assets	<u>222,727,209</u>	<u>156,855,607</u>
Liabilities:		
Long-term liabilities	114,965,793	58,621,680
Other liabilities	<u>10,584,881</u>	<u>5,919,630</u>
Total liabilities	<u>125,550,674</u>	<u>64,541,310</u>
Net assets:		
Invested in capital assets, net of related debt	22,268,034	22,107,043
Restricted net assets	2,210,949	2,565,183
Unrestricted net assets	<u>72,697,552</u>	<u>67,642,071</u>
Total net assets	<u>\$ 97,176,535</u>	<u>\$ 92,314,297</u>

Financial Highlights and Analysis

Total assets increased by \$65.9 million in the fiscal year ending June 30, 2012, due largely to new construction and renovation of existing buildings throughout the District. Total liabilities increased by \$61 million primarily due to the issuance of the 2012 Series B, General Obligation Bonds, in the amount of \$59 million. Total net assets increased by \$4.9 million (5.3 percent) in fiscal year 2012 compared with an increase of \$11.6 million (14.3 percent) in fiscal year 2011 over the previous year. Total current assets and unrestricted net assets increased by \$6.0 million and \$5.1 million, respectively, mainly because of budgeted reserves in the general operating fund and excess revenues over expenditures in the general operating fund.

Pinal County Community College District  
 (Central Arizona College)  
 Management's Discussion and Analysis  
 Year Ended June 30, 2012

<b><u>Changes in Net Assets—Primary Government</u></b>		
	<b><u>Year Ended June 30, 2012</u></b>	<b><u>Year Ended June 30, 2011</u></b>
Operating revenues	\$ 6,746,468	\$ 6,419,663
Operating expenses	<u>61,463,297</u>	<u>58,318,851</u>
Operating loss	<u>(54,716,829)</u>	<u>(51,899,188)</u>
Nonoperating revenues less expenses	<u>59,579,067</u>	<u>63,473,547</u>
Income before other revenues, expenses, gains, or losses	<u>4,862,238</u>	<u>11,574,359</u>
Increase in net assets	4,862,238	11,574,359
Net assets, beginning of year	<u>92,314,297</u>	<u>80,739,938</u>
Net assets, end of year	<u>\$ 97,176,535</u>	<u>\$ 92,314,297</u>

During fiscal year 2012, there was a decrease in total revenues of \$2.1 million when compared with the prior year. Property tax revenues decreased by \$275,000 due to the projected additional 16 percent decline in primary assessed values and a 17 percent decline in secondary assessed values for fiscal year 2012. Government grants and contracts increased by \$1.0 million primarily because of a \$1.2 million increase in award amounts for the student Pell grant program in U.S. Department of Education grant funds. Private grants and gifts increased by 6 percent primarily due to an increase in scholarships funded by the Central Arizona College Foundation. Total operating revenues increased by 5 percent due to increases in net tuition and fees revenue because of increased student enrollment.

State appropriations decreased by the predicted \$2.8 million, or 58 percent, due to the economic downturn experienced by the State of Arizona. Investment income decreased by 55 percent because cash balances consisting of the 2010 general obligation bond proceeds and other unrestricted monies were used to fund capital projects until the 2012 general obligation bonds were issued later during the year. When the 2012 general obligation bond proceeds were received, the District reimbursed the unrestricted cash balances but continued to spend bond proceeds on ongoing capital projects, further decreasing cash balances.

Total expenses increased by 8 percent as compared with the prior year due primarily to an increase in student scholarships as well as overall increases in academic and institutional support functions. The increases in academic and institutional support functions were due primarily to the District investing in non-capital computer equipment and related supplies as well as office furniture.



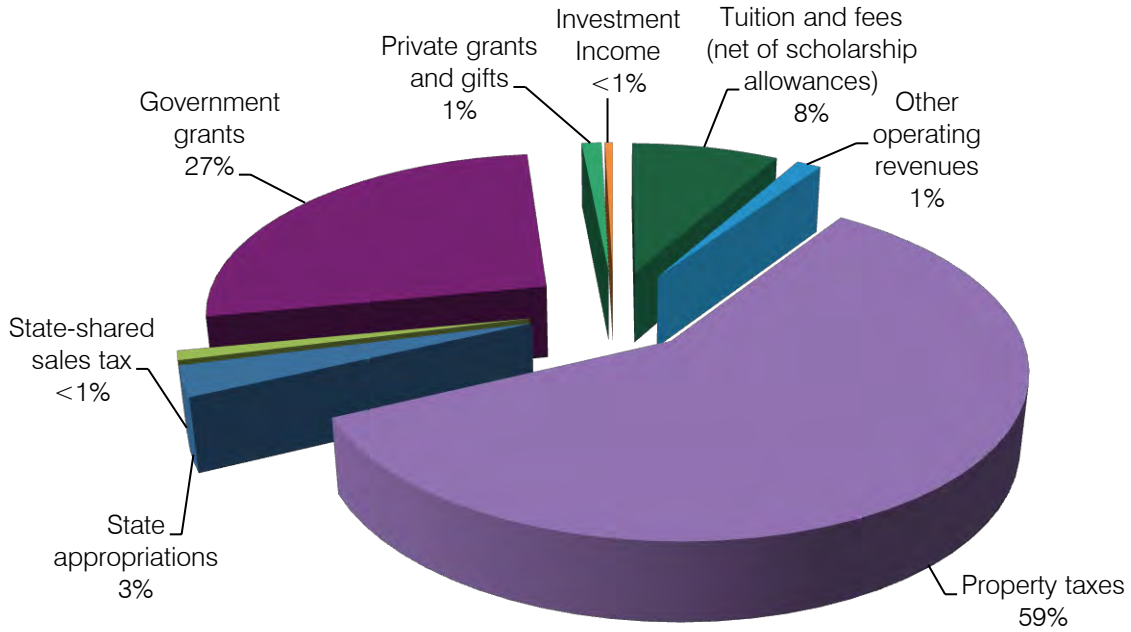
Pinal County Community College District  
 (Central Arizona College)  
 Management's Discussion and Analysis  
 Year Ended June 30, 2012

The following is a summary of revenues for fiscal years ended June 30, 2012, and June 30, 2011:

<b><u>Revenues by Source—Primary Government</u></b>				
	<b><u>Year Ended June 30, 2012</u></b>		<b><u>Year Ended June 30, 2011</u></b>	
Operating revenues:				
Tuition and fees (net of scholarship allowances)	\$ 5,783,033	8.2%	\$ 5,546,834	7.6%
Other operating revenues	<u>963,435</u>	<u>1.4%</u>	<u>872,829</u>	<u>1.2%</u>
Total operating revenues	<u>6,746,468</u>	<u>9.6%</u>	<u>6,419,663</u>	<u>8.8%</u>
Nonoperating revenues:				
Property taxes	41,240,729	58.5%	41,515,641	57.2%
State appropriations	2,086,200	3.0%	4,935,100	6.8%
State-shared sales tax	643,450	0.9%	603,286	0.8%
Government grants	18,712,367	26.5%	17,681,184	24.4%
Private grants and gifts	777,473	1.1%	734,550	1.0%
Investment income	<u>308,390</u>	<u>0.4%</u>	<u>681,310</u>	<u>1.0%</u>
Total nonoperating revenues	<u>63,768,609</u>	<u>90.4%</u>	<u>66,151,071</u>	<u>91.2%</u>
Total revenues	<u>\$70,515,077</u>	<u>100.0%</u>	<u>\$72,570,734</u>	<u>100.0%</u>

Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Year Ended June 30, 2012

### Revenue by Source—2012



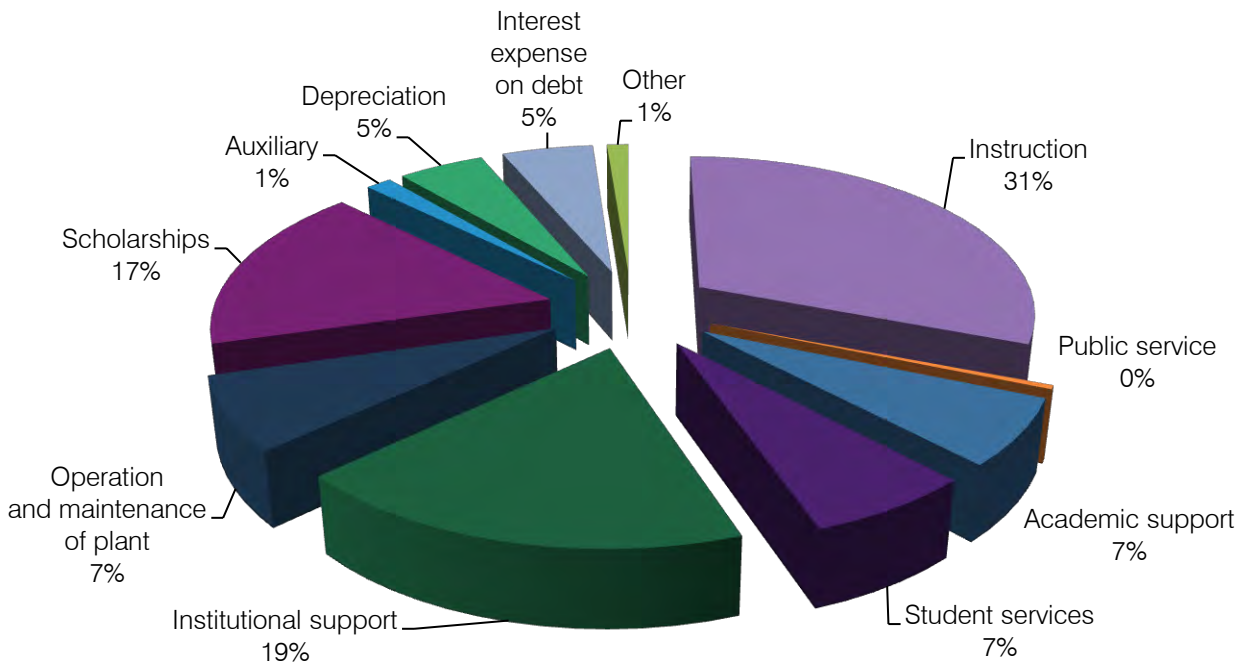
Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Year Ended June 30, 2012

The following is a summary of expenses for fiscal years ended June 30, 2012, and June 30, 2011:

<b><u>Expenses by Function—Primary Government</u></b>				
	<b><u>Year Ended</u></b>		<b><u>Year Ended</u></b>	
	<b><u>June 30, 2012</u></b>		<b><u>June 30, 2011</u></b>	
Operating expenses:				
Educational and general:				
Instruction	\$20,278,756	31%	\$20,583,431	34%
Public service	254,705	0%	246,036	0%
Academic support	4,340,455	7%	3,363,850	6%
Student services	4,440,378	7%	4,221,676	7%
Institutional support	12,151,296	19%	10,973,524	18%
Operation and maintenance of plant	4,833,938	7%	4,569,432	7%
Scholarships	11,009,844	17%	10,267,328	17%
Auxiliary enterprises	955,375	1%	985,096	2%
Depreciation	<u>3,198,550</u>	<u>5%</u>	<u>3,108,478</u>	<u>5%</u>
Total operating expenses	<u>61,463,297</u>	<u>94%</u>	<u>58,318,851</u>	<u>96%</u>
Nonoperating expenses:				
Interest expense on debt	3,390,240	5%	2,671,037	4%
Other	<u>799,302</u>	<u>1%</u>	<u>6,487</u>	<u>0%</u>
Total nonoperating expenses	<u>4,189,542</u>	<u>6%</u>	<u>2,677,524</u>	<u>4%</u>
Total expenses	<u>\$65,652,839</u>	<u>100%</u>	<u>\$60,996,375</u>	<u>100%</u>

Pinal County Community College District  
 (Central Arizona College)  
 Management's Discussion and Analysis  
 Year Ended June 30, 2012

### Expenses by Function—2012



#### Capital Assets and Debt Administration

As of June 30, 2012, the District's capital assets, net of accumulated depreciation, totaled \$119.5 million, an increase of \$53 million from the prior year. Capital assets include land, equipment, buildings, improvements other than buildings, library books, intangibles, and construction in progress. Additional information on capital assets can be found in Note 3 to the District's financial statements.

The District issued \$40 million Series A general obligation bonds in fiscal year 2010 as a part of the \$99 million capital project initiative approved by the voters in 2008. The District issued the remaining \$59 million Series B general obligation bonds in fiscal year 2012. The District used these proceeds in the current year to fund the Superstition Mountain Campus expansion, construct the first phase of the new Maricopa Campus, purchase land for the new San Tan Campus, construct the first phase of the new San Tan Campus, and renovate selected buildings on the Signal Peak and Aravaipa Campuses. Both bond issues have been rated Aa2 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  
Year Ended June 30, 2012

## Current Factors having Probable Future Financial Significance

For fiscal year 2012, the primary assessed value for property in the County decreased by 16 percent and the secondary assessed value for property decreased by 17 percent. With the continued local economic downturn, the County projected an additional 3 percent decline in primary assessed values and a 2 percent decline in secondary assessed values for fiscal year 2013. To offset the decline in assessed values, it was necessary for the District to increase the tax rates for fiscal years 2012 and 2013. 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.

Pinal County Community College District  
(Central Arizona College)  
Statement of Net Assets—Primary Government  
June 30, 2012

	<u>Business-Type Activities</u>
<b>Assets</b>	
Current assets:	
Cash and investments	\$ 71,596,602
Receivables:	
Accounts (net of allowance of \$200,401)	3,774,606
Property taxes (net of allowance of \$113,723)	3,022,106
Government grants and contracts	1,495,547
Student loans (net of allowance of \$550)	559
Other (net of allowance of \$2,992)	32,904
Total current assets	<u>79,922,324</u>
Noncurrent assets:	
Restricted assets:	
Cash and investments held by County Treasurer	21,436,424
Cash and investments held by trustee	1,875,503
Other receivables (net of allowance of \$569)	6,251
Deferred charges	35,520
Capital assets, not being depreciated	67,363,747
Capital assets, being depreciated, net	52,087,440
Total noncurrent assets	<u>142,804,885</u>
Total assets	<u>222,727,209</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	8,103,755
Accrued payroll and employee benefits	1,014,206
Interest payable	350,000
Deferred revenues	40,000
Deposits held in custody for others	538,904
Insurance claims payable	538,016
Current portion of compensated absences payable	800,672
Current portion of long-term debt	4,586,623
Total current liabilities	<u>15,972,176</u>

(Continued)

See accompanying notes to financial statements.

Pinal County Community College District  
(Central Arizona College)  
Statement of Net Assets—Primary Government  
June 30, 2012  
(Continued)

	<b>Business-Type Activities</b>
Noncurrent liabilities:	
Deferred revenues	\$ 360,000
Compensated absences payable	896,797
Long-term debt	108,321,701
Total noncurrent liabilities	109,578,498
Total liabilities	125,550,674
<b>Net Assets</b>	
Invested in capital assets, net of related debt	22,232,514
Restricted:	
Expendable:	
Grants and contracts	877,137
Loans	62,198
Debt service	1,271,614
Unrestricted	72,733,072
Total net assets	\$ 97,176,535

See accompanying notes to financial statements.

Pinal County Community College District  
 (Central Arizona College)  
 Statement of Financial Position—Component Unit  
 June 30, 2012

	<b><u>Central Arizona College Foundation</u></b>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 2,862
Certificate of deposit—current	<u>63,473</u>
Total current assets	<u>66,335</u>
Certificates of deposit	440,571
Investments	<u>3,241,994</u>
<b>Total assets</b>	<u><b>3,748,900</b></u>
<b>Liabilities</b>	
Accounts payable	<u>112,443</u>
Total liabilities	<u>112,443</u>
<b>Net Assets</b>	
Unrestricted	(113,056)
Temporarily restricted	430,855
Permanently restricted	<u>3,318,658</u>
Total net assets	<u><b>\$ 3,636,457</b></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, 2012

	<u><b>Business-Type Activities</b></u>
Operating revenues:	
Tuition and fees (net of scholarship allowances of \$7,117,931)	\$ 5,783,033
Dormitory rentals and fees (net of scholarship allowances of \$367,339)	256,706
Other	706,729
Total operating revenues	<u>6,746,468</u>
Operating expenses:	
Educational and general:	
Instruction	20,278,756
Public service	254,705
Academic support	4,340,455
Student services	4,440,378
Institutional support	12,151,296
Operation and maintenance of plant	4,833,938
Scholarships	11,009,844
Auxiliary enterprises	955,375
Depreciation	3,198,550
Total operating expenses	<u>61,463,297</u>
Operating loss	<u>(54,716,829)</u>
Nonoperating revenues (expenses):	
Property taxes	41,240,729
State appropriations	2,086,200
Government grants	18,712,367
Share of state sales taxes	643,450
Private grants and gifts	777,473
Investment earnings	308,390
Interest expense on debt	(3,390,240)
Loss on disposal of capital assets	(799,302)
Net nonoperating revenues	<u>59,579,067</u>
Income before other revenues, expenses, gains, or losses	4,862,238
Increase in net assets	4,862,238
Total net assets, July 1, 2011	<u>92,314,297</u>
Total net assets, June 30, 2012	<u>\$ 97,176,535</u>

See accompanying notes to financial statements.

Pinal County Community College District  
(Central Arizona College)  
Statement of Activities—Component Unit  
Year Ended June 30, 2012

	<b>Central Arizona College Foundation</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Revenues, gains, and other support				
Contributions	\$ 23,394	\$ 172,179	\$ 295,100	\$ 490,673
Contributions—donated services and space	41,280			41,280
Investment income		128,858		128,858
Net realized and unrealized gains on investments		43,667		43,667
Net assets released from restrictions	<u>647,604</u>	<u>(647,604)</u>	<u>                    </u>	<u>                    </u>
Total revenues, gains, and other support	<u>712,278</u>	<u>(302,900)</u>	<u>295,100</u>	<u>704,478</u>
Expenses and losses				
Scholarships	692,518			692,518
Fundraising	3,996			3,996
Public relations	11,020			11,020
Office operations expenses	<u>117,800</u>	<u>                    </u>	<u>                    </u>	<u>117,800</u>
Total expenses and losses	<u>825,334</u>	<u>                    </u>	<u>                    </u>	<u>825,334</u>
Changes in net assets	(113,056)	(302,900)	295,100	(120,856)
Net assets, beginning of year, as restated	<u>                    </u>	<u>733,755</u>	<u>3,023,558</u>	<u>3,757,313</u>
Net assets, end of year	<u>\$ (113,056)</u>	<u>\$ 430,855</u>	<u>\$ 3,318,658</u>	<u>\$ 3,636,457</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, 2012

	<b>Business-Type Activities</b>
Cash flows from operating activities:	
Tuition and fees	\$ 5,213,512
Dormitory rentals and fees	246,174
Collection of loans to students	6,976
Other receipts	1,151,669
Payments to suppliers and providers of goods and services	(11,474,201)
Payments for employee wages and benefits	(34,681,928)
Payments to students for scholarships	(11,017,380)
Other payments	<u>(932,617)</u>
Net cash used for operating activities	<u>(51,487,795)</u>
Cash flows from noncapital financing activities:	
Property taxes	40,902,720
State appropriations	2,086,200
Grants	19,220,273
Share of state sales taxes	643,450
Private grants and gifts	777,473
Federal direct lending receipts	7,121,487
Federal direct lending disbursements	(7,121,487)
Deposits held in custody for others received	254,704
Deposits held in custody for others disbursed	<u>(193,793)</u>
Net cash provided by noncapital financing activities	<u>63,691,027</u>
Cash flows from capital and related financing activities:	
Proceeds from issuance of capital debt	61,203,158
Proceeds from sale of capital assets	13,374
Principal paid on capital debt	(5,055,747)
Interest paid on capital debt	(3,548,114)
Purchases of capital assets	<u>(52,712,860)</u>
Net cash used for capital and related financing activities	<u>(100,189)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	2,103,128
Interest received on investments	272,870
Purchases of investments	<u>(2,136,006)</u>
Net cash provided by investing activities	<u>239,992</u>
Net increase in cash and cash equivalents	12,343,035
Cash and cash equivalents, July 1, 2011	<u>80,689,991</u>
Cash and cash equivalents, June 30, 2012	<u>\$ 93,033,026</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, 2012  
(Continued)

	<u>Business-Type Activities</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (54,716,829)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	3,198,550
Changes in assets and liabilities:	
Increase in:	
Receivables, net	(589,039)
Accounts payable	570,959
Student loans receivable	(559)
Deferred revenues	400,000
Insurance claims payable	83,817
Decrease in:	
Compensated absences payable	(38,652)
Accrued payroll and employee benefits	(396,042)
Net cash used for operating activities	<u>\$ (51,487,795)</u>
Noncash investing, capital, and noncapital financing activities:	
Disposal of capital assets being depreciated	\$ 5,449,392
Elimination of accumulated depreciation on disposal of capital assets	4,636,716
Amortization of bond premium	87,646
Amortization of deferred charges	1,480
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and investments	\$ 71,596,602
Restricted assets:	
Cash and investments held by County Treasurer	<u>21,436,424</u>
Total cash and cash equivalents, June 30, 2012	<u>\$ 93,033,026</u>

See accompanying notes to financial statements.

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Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District (the primary government) and its discretely presented component 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 District's respective counterpart financial statements. For financial reporting purposes, only the Foundation's statements of financial position and activities are included in the District's financial statements as required by generally accepted accounting principles for public colleges and universities. The Foundation has a June 30 year-end.

During the year ended June 30, 2012, the Foundation distributed \$559,381 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 the District's obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Expendable restricted net assets represents grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets includes all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in net assets provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Operating revenues and expenses generally result from exchange transactions. Accordingly, revenues, such as tuition and 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, cash and investments held by the County Treasurer, and highly liquid investments. 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:

	<b>Capitalization Threshold</b>	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Land	All	N/A	N/A
Buildings	\$5,000	Straight-line	40 years
Modular buildings	5,000	Straight-line	20 years
Improvements other than buildings	5,000	Straight-line	15 years
Equipment	5,000	Straight-line	5 years
Intangibles			
Water rights	5,000	Straight-line	100 years
Software	5,000	Straight-line	5 years
Library books	All	Straight-line	10 years

Depreciation is accounted for using a half-year convention. 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 Earnings

Investment earnings 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.

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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 and Sick Leave Sell-Back program. For fiscal year 2012, employees must maintain a minimum of 20 days of vacation to participate in the sell-back program. An employee may sell back vacation hours accrued in excess of 20 days at the employee's current hourly rate at the time of sell-back. Also, upon terminating employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with 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 and Sick Leave Sell-Back program. For fiscal year 2012, employees must maintain a minimum of 60 days of sick leave to participate in the sell-back program. An employee may sell back sick leave hours in excess of 60 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 the student's behalf. Accordingly, some types of student financial aid, such as Pell grants and scholarships awarded by the District, are considered to be scholarship allowances. These allowances are netted against tuition and fees revenues 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, 2012, the carrying amount of the District's deposits was \$16,908,409 and the bank balance was \$19,620,717. The District does not have a policy with respect to custodial credit risk.



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**Investments**—The District’s investments at June 30, 2012, were as follows:

<b>Investment Type</b>	<b>Amount</b>
County Treasurer’s investment pool	\$76,100,944
Mutual funds—U.S. Treasury securities	<u>1,875,503</u>
Total	<u>\$77,976,447</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, 2012, credit risk for the District’s investments was as follows:

<b>Investment Type</b>	<b>Rating</b>	<b>Rating Agency</b>	<b>Amount</b>
County Treasurer’s investment pool	Unrated	Not applicable	\$76,100,944
Mutual funds—U.S. Treasury securities	Aa2	Moody’s	<u>1,875,503</u>
Total			<u>\$77,976,447</u>

**Custodial credit risk**—For an investment, custodial credit risk is the risk that, in the event of the counterparty’s failure, the District will not be able to recover the value of its investments or collateral securities that are in an outside party’s possession. The District does not have a formal policy with respect to custodial credit risk. At June 30, 2012, the District had \$1,875,503 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, 2012, the District had the following investments in debt securities:

<b>Investment Type</b>	<b>Investment Maturities</b>
	<b>Less than 1 Year</b>
County Treasurer’s investment pool	\$76,100,944
Mutual funds—U.S. Treasury securities	<u>1,875,503</u>
Total	<u>\$77,976,447</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	\$ 23,673	Cash and cash equivalents	\$71,596,602
Amount of deposits	16,908,409	Restricted assets:	
Amount of investments	<u>77,976,447</u>	Cash and investments held by County Treasurer	21,436,424
		Cash and investments held by trustee	<u>1,875,503</u>
Total	<u>\$94,908,529</u>	Total	<u>\$94,908,529</u>

### Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	<b>Balance July 1, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2012</b>
Capital assets not being depreciated:				
Land	\$17,326,623	\$ 8,686,652		\$ 26,013,275
Construction in progress	<u>12,497,822</u>	<u>34,416,781</u>	<u>\$5,564,131</u>	<u>41,350,472</u>
Total capital assets not being depreciated	<u>29,824,445</u>	<u>43,103,433</u>	<u>5,564,131</u>	<u>67,363,747</u>
Capital assets being depreciated:				
Buildings	50,430,071	10,651,239	4,650	61,076,660
Improvements other than buildings	7,867,171	6,672,409	3,228	14,536,352
Water rights		1,171,172		1,171,172
Other intangibles		11,750		11,750
Equipment	17,776,296	951,963	5,132,619	13,595,640
Library books	<u>1,754,876</u>	<u>53,859</u>	<u>308,895</u>	<u>1,499,840</u>
Total capital assets being depreciated	<u>77,828,414</u>	<u>19,512,392</u>	<u>5,449,392</u>	<u>91,891,414</u>
Less accumulated depreciation for:				
Buildings	21,811,421	1,142,168	523	22,953,066
Improvements other than buildings	3,783,553	482,683	1,937	4,264,299
Other intangibles		1,175		1,175
Equipment	14,226,818	1,507,538	4,344,575	11,389,781
Library books	<u>1,420,348</u>	<u>64,986</u>	<u>289,681</u>	<u>1,195,653</u>
Total accumulated depreciation	<u>41,242,140</u>	<u>3,198,550</u>	<u>4,636,716</u>	<u>39,803,974</u>
Total capital assets being depreciated, net	<u>36,586,274</u>	<u>16,313,842</u>	<u>812,676</u>	<u>52,087,440</u>
Capital assets, net	<u>\$66,410,719</u>	<u>\$59,417,275</u>	<u>\$6,376,807</u>	<u>\$119,451,187</u>

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As of June 30, 2012, the District had ongoing construction projects for the expansion and renovation of the Superstition Mountain Campus, Aravaipa Campus, and Signal Peak Campus, as well as the addition of a Maricopa Campus and San Tan Campus. The District spent a total of approximately \$39 million on these projects during the year, and had estimated remaining contractual commitments of \$47 million at June 30, 2012, as follows: Superstition Mountain Campus—\$1.3 million, Aravaipa Campus—\$0.6 million, Signal Peak—\$3.1 million, Maricopa Campus—\$16.5 million, and San Tan Campus—\$25.5 million. These projects will be funded with unspent proceeds from the Series 2012B General Obligation Bonds.

Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within 1 year
Compensated absences payable	<u>\$ 1,736,121</u>	<u>\$ 1,053,219</u>	<u>\$ 1,091,871</u>	<u>\$ 1,697,469</u>	<u>\$ 800,672</u>
Bonds payable:					
General obligation bonds	\$38,175,000	\$58,975,000	\$3,220,000	\$ 93,930,000	\$2,590,000
Premium		2,191,158	87,646	2,103,512	87,645
Revenue bonds	6,300,000		675,000	5,625,000	705,000
Pledged revenue obligations payable	<u>8,015,000</u>		<u>880,000</u>	<u>7,135,000</u>	<u>910,000</u>
Total bonds payable	<u>52,490,000</u>	<u>61,166,158</u>	<u>4,862,646</u>	<u>108,793,512</u>	<u>4,292,645</u>
Capital leases payable	<u>4,395,559</u>		<u>280,747</u>	<u>4,114,812</u>	<u>293,978</u>
Total long-term debt	<u>\$56,885,559</u>	<u>\$61,166,158</u>	<u>\$5,143,393</u>	<u>\$112,908,324</u>	<u>\$4,586,623</u>

**Bonds**—The District's bonded debt consists of general obligation and revenue bonds that are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. In fiscal year 2010, 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. In fiscal year 2012, the District issued the remaining \$59 million of voter-approved general obligation bonds to fund the remaining costs associated with these projects. In addition, the District issued revenue bonds in fiscal year 2004, a portion of which were used to advance refund a prior higher-rate revenue bond issue that is legally defeased as of June 30, 2009. The District repays general obligation bonds from voter-approved property taxes. Revenue bonds are repaid from tuition and fees and dormitory rentals and fees. Bonds outstanding at June 30, 2012, were as follows:

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Description	Original Amount Issued	Maturity Ranges	Interest Rates	Outstanding Principal
General Obligation Bonds—Series 2012B	\$58,975,000	7/1/12-36	2.0-4.5%	\$56,725,000
General Obligation Bonds—Series 2009A	40,000,000	7/1/12-34	4.0-5.25%	37,205,000
Revenue Bonds—Series 2004	10,500,000	7/1/12-18	4.125-4.5%	5,625,000

The following schedule details debt service requirements to maturity for the District's bonds payable at June 30, 2012:

Year ending June 30,	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>	
	Principal	Interest	Principal	Interest
2013	\$ 2,590,000	\$ 3,962,018	\$ 705,000	\$228,134
2014	2,660,000	3,890,118	735,000	196,175
2015	2,740,000	3,816,018	765,000	162,425
2016	2,810,000	3,739,418	800,000	127,212
2017	2,905,000	3,643,818	840,000	91,887
2018-2022	16,160,000	16,601,340	1,780,000	75,957
2023-2027	19,910,000	12,849,290		
2028-2032	25,255,000	7,684,278		
2033-2037	<u>18,900,000</u>	<u>1,806,002</u>		
Total	<u>\$93,930,000</u>	<u>\$57,992,300</u>	<u>\$5,625,000</u>	<u>\$881,790</u>

**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. The obligations are secured by the District's tuition and fees and dormitory rental fees and are callable with interest payable semiannually.

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 older higher-rate 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 tuition and fees and dormitory rentals and fees 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 \$12,760,000 and \$1,920,415, respectively, with annual requirements ranging from \$2,090,543 to \$2,105,797. Pledged revenue sources have averaged approximately \$5,650,000 over the prior 5 fiscal years. For the current year, principal and interest paid by the District was \$2,103,128, and total tuition and fees and dormitory rentals and fees, net of scholarship allowances, was \$6,039,739.

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Pledged revenue obligations at June 30, 2012, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Pledged Revenue Obligations—Series 2004	\$13,530,000	7/1/12-18	3.0%-4.125%	\$7,135,000

The following schedule details debt service requirements to maturity for the District's pledged revenue obligation payable at June 30, 2012:

Year Ending June 30,	<u>Pledged Revenue Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 910,000	\$ 262,663
2014	940,000	229,075
2015	980,000	190,675
2016	1,020,000	151,950
2017	1,050,000	111,825
2018-19	<u>2,235,000</u>	<u>92,437</u>
Total	<u>\$7,135,000</u>	<u>\$1,038,625</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:

Improvements other than buildings	\$3,087,228
Equipment	2,249,586
Less: accumulated depreciation	<u>2,950,796</u>
Carrying value	<u>\$2,386,018</u>

The following schedule details debt service requirements to maturity for the District's capital lease payable at June 30, 2012:

Year ending June 30	
2013	\$ 469,810
2014	470,734
2015	471,703
2016	472,721
2017	473,786
2018-22	2,386,633
2023	<u>481,223</u>
Total minimum lease payments	5,226,610
Less amount representing interest	<u>1,111,798</u>
Present value of net minimum lease payments	<u>\$4,114,812</u>

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Note 5 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with 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 coverage limit for general liability is \$10 million with no deductible except for employer's liability which is \$500,000. The coverage limit for professional liability is \$10 million with no deductible. The coverage limit for property insurance is \$100 million with a \$1,000 deductible. The coverage limit for automobile liability is \$10 million with no deductible. The coverage limit for commercial crime is \$1,500,000 with a \$100 deductible. 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 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.

**Insurance claims**—The District finances uninsured risks of loss for certain health 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 \$538,016 at June 30, 2012, 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, 2012. Changes in the District's claims payable for the years ended June 30, 2012, and June 30, 2011, were as follows:

	<b>2012</b>	<b>2011</b>
Claims payable, beginning of year	\$ 454,199	\$ 670,422
Current year claims and changes in estimates	3,765,459	3,334,233
Claim payments	<u>(3,681,642)</u>	<u>(3,550,456)</u>
Claims payable, end of year	<u>\$ 538,016</u>	<u>\$ 454,199</u>

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Note 6 - 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 \$836,531 for the year ended June 30, 2012. The operating leases have remaining noncancelable terms of 2 to 9 years and provide renewal options. The future minimum payments required under the operating leases at June 30, 2012, were as follows:

Year ending June 30	
2013	\$ 652,138
2014	658,498
2015	551,662
2016	349,701
2017	363,689
2018-2021	<u>1,606,169</u>
Total minimum lease payments	<u>\$4,181,857</u>

Note 7 - Pension and Other Postemployment Benefits

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

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 N. Central Ave., 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, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll and the District was required by statute to contribute at the actuarially determined rate of 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

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

Year ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2012	\$1,968,187	\$125,629	\$47,495
2011	1,856,466	123,764	50,736
2010	1,786,863	141,406	83,923

Note 8 - Operating Expenses

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

Personal services	\$34,331,051
Contract services	3,528,569
Supplies and other services	6,699,925
Communications and utilities	1,816,667
Scholarships	11,009,844
Depreciation	3,198,550
Other	<u>878,691</u>
Total	<u>\$61,463,297</u>

Note 9 - Subsequent Events

In August 2012, the District approved additional construction and renovation projects for the new San Tan Campus in the amount of \$17.9 million. A portion of the construction and renovation projects will be funded by unspent proceeds from the Series 2012B General Obligation Bonds.

Note 10 - Central Arizona College Foundation

A. Nature of Activities and Summary of Significant Accounting Policies

**Nature of Activities**—The Central Arizona College Foundation (Foundation) was formed in 1968 as an Arizona not-for-profit corporation. The Foundation's mission and purpose is to support the programs and activities of Central Arizona College (College). The Foundation supports student scholarships, faculty development, and programs that enrich both campus and community life.



Pinal County Community College District  
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The major activities of the Foundation include providing scholarships to college students, sponsorship of community events, and college development activities. Resources to fund these activities are provided mainly from investment income, contributions, and grants.

**Basis of Accounting and Financial Statement Presentation**—The Foundation's financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

The Foundation reports 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. Temporarily restricted net assets are composed of assets that have been restricted by the donors and contain either time or purpose restrictions plus unspent accumulated investment income on the permanently restricted endowments.

**Cash and Cash Equivalents**—The Foundation considers all highly liquid debt instruments purchased with a remaining maturity of 3 months or less at date of acquisition to be cash equivalents. Cash and money market funds held in investment accounts are included as investments instead of cash as they are considered to be part of the investment pool.

**Promises to Give**—Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are to be collected within 1 year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contribution support.

**Fair Value Measurements and Investments**—A framework for measuring fair value has been established by Accounting Standards and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under Accounting Standards are as follows:

- Level 1    Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2    Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability; and
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Pinal County Community College District  
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Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement and usually reflect the Foundation's own assumptions that market participants would use in pricing the assets (i.e., real estate valuations and broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investment income or loss (including realized and unrealized gains and losses) is included in the change in temporarily restricted net assets in the accompanying statement of activity, unless the income or loss is restricted by donor or law. The Foundation invests most of the endowments in an investment pool that is managed by an investment advisor to the Foundation. This is a commission based account and investment fees are assessed on transaction activity.

**Risks and Uncertainty**—The Foundation invests in various types of investments that are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amount reported in the statement of financial position.

**Endowment Funds**—The Foundation's endowment funds consist of approximately 40 funds established for various purposes. The endowment funds include donor-restricted endowment funds. Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation follows the Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds. When a donor's intent is not expressed, MCFA directs the Foundation to spend an amount that is prudent and consistent with the purposes of the fund, relevant economic factors, and the donor's intent that the fund continue in perpetuity.

The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MCFA.

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In accordance with MCFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the Foundation's other resources, and (7) the Foundation's investment policies.

*Investment Return Objectives, Risk Parameters and Strategies.* The Foundation does not have a formal investment policy for endowment assets, although the Board of Directors approves the investment strategy annually. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. The Foundation's primary objective is to obtain the best possible return on investments with the appropriate degree of risk and to meet the priorities of the Foundation and Central Arizona College over time. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution, while growing the funds if possible.

*Spending Policy.* The Foundation does not have a formal spending policy for endowment funds, although it approves a spending budget annually. In establishing this practice, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Foundation expects the current spending practice to allow its endowment funds to grow over time.

**Contributions**—Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a 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.

Donated materials, services, and space are recorded at their estimated fair value upon receipt. In-kind donations during the year ended June 30, 2012, include consulting services of \$39,480 and space donations of \$1,800. Contributions of nonmonetary items that are converted to cash within a short period of time are recorded as contribution income in the statement of activities.

Contributions of donated services that creates or enhances nonfinancial assets or that require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation services.

Pinal County Community College District  
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**Scholarship Expense and Scholarships Payable**—The College's Financial Aid Office is responsible for determining student eligibility and qualifications under the various scholarship funds and provides the Foundation with a detail of total scholarship funds awarded. Scholarships are expensed for financial statement purposes when the funds are committed by the College's financial aid office.

**Advertising**—Advertising costs are charged to operations as incurred. Advertising expense charged to operations was approximately \$1,000 for the year ended June 30, 2012.

**Functional Expenses**—Management and general expenses include direct office operation expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

**Income Taxes**—The Foundation is exempt from payment of income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation has been classified as a Foundation that is not a private foundation under Section 509(a)(3).

The Foundation recognizes uncertain tax positions in the financial statements when it is more-likely-than-not the positions will not be sustained upon examination by the tax authorities. At June 30, 2012, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Federal and state informational returns of the Foundation are subject to examination by the Internal Revenue Service or the State of Arizona for years ending June 30, 2009 and 2008, generally for 3 to 4 years, respectively, after they were filed.

The Foundation recognizes interest and penalties associated with income taxes in operating expenses. During the year ended June 30, 2012, the Foundation did not have any income tax related interest and penalty expense.

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

**Date of Management's Review**—In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through November 30, 2012, the date the financial statements were available to be issued.

Pinal County Community College District  
 (Central Arizona College)  
 Notes to Financial Statements  
 June 30, 2012

**B. Concentrations of Credit Risk**

Financial instruments that subject the Foundation to potential concentrations of credit risk consist principally of cash and cash equivalents, investments, and contributions. The Foundation maintains its cash in bank accounts, which at times may exceed federally insured limits. At June 30, 2012, the bank balances did not exceed the federally insured limits.

The Foundation also maintains cash in accounts with stock brokerage firms. The accounts contain cash and securities. Balances are insured up to \$500,000 (with a limit of \$250,000 for cash) by the Securities Investor Protection Corporation (SIPC). Balances over \$500,000 are insured by the brokerage firms. At June 30, 2012, balances held with the stock brokerage firms exceeded the federally insured limits by \$3,248,900, although they were insured by the brokerage firm. The Foundation has not experienced any losses in such amounts and believes it is not exposed to any significant credit risk on its cash balances.

**C. Certificates of deposit**

Certificates of deposit consisted of the following at June 30, 2012:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
4/1/2013	2.05%	<u>\$ 63,473</u>
Long-term		
3/31/2014	2.10%	63,826
4/6/2015	2.70%	64,008
3/31/2016	2.75%	63,788
3/31/2017	3.00%	63,693
4/1/2019	3.35%	63,410
4/1/2020	3.55%	63,346
4/5/2022	2.80%	<u>58,500</u>
Total long-term		<u>\$440,571</u>

**D. Investments**

The following is a summary of the value of investments at June 30, 2012:

Corporate bonds	\$ 18,040
Unit trusts	176,188
Stocks	1,322,100
Mutual funds	<u>1,725,666</u>
	<u>\$3,241,994</u>

Pinal County Community College District  
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The following schedule summarizes the investment return for the year ended June 30, 2012:

Interest and dividend income	\$128,858
Net realized gains	19,622
Net unrealized gains	<u>24,045</u>
	<u>\$172,525</u>

Investment return is reported net of related investment expenses in the statement of activities. The amount of expense/commissions netted with income was \$22,950 for the year ended June 30, 2012.

### E. Fair Value of Financial Instruments

Investments with readily determinable fair values are measured at fair value in the statement of financial position as determined by quoted market prices in active markets (Level 1) or measured based on prices for identical assets in nonactive markets (Level 2).

The following is a summary of these fair values at June 30, 2012:

	Level 1	Level 2	Total
Measured at fair value on a recurring basis			
Corporate bonds		\$18,040	\$ 18,040
Unit trusts	\$ 176,188		176,188
Stocks	1,322,100		1,322,100
Mutual funds	<u>1,725,666</u>		<u>1,725,666</u>
Total investments	<u>\$3,223,954</u>	<u>\$18,040</u>	<u>\$3,241,994</u>

### F. Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support services and programs to Central Arizona College and the students of Central Arizona College as designated by the donors. At June 30, 2012, the Foundation held 40 permanently restricted net asset funds. Temporarily restricted net assets are expendable for the purposes designated by their source. At June 30, 2012, the Foundation held 33 temporarily restricted net asset funds.

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2012

The nature of these restrictions is as follows:

Permanently restricted net assets	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by MCFA	\$3,318,658
Temporarily restricted net assets	
The investment income on perpetual endowment funds subject to a time restriction under MCFA	4,777
Other net assets temporarily purpose restricted:	
Scholarships (nonendowed)	426,078
	\$ 430,855

### G. Endowment Funds

Endowment funds include funds restricted in perpetuity by the donors. Endowment net asset composition by type of fund as of June 30, 2012, is as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment Funds
Permanently restricted funds	<u>\$4,777</u>	<u>\$3,318,658</u>	<u>\$3,323,435</u>

Changes in endowment funds are as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment Funds
Balance, June 30, 2011	\$ 10,695	\$3,023,558	\$3,034,253
Contributions		295,100	295,100
Interest and dividend income	105,083		105,083
Unrealized gains (loss)	33,822		33,822
Amounts appropriated for expenditures	<u>(144,823)</u>	<u>          </u>	<u>(144,823)</u>
Balance, June 30, 2012	<u>\$ 4,777</u>	<u>\$3,318,658</u>	<u>\$3,323,435</u>

Amounts appropriated for temporarily restricted expenditure include the following:

Scholarship awards	\$144,823
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Pinal County Community College District  
 (Central Arizona College)  
 Notes to Financial Statements  
 June 30, 2012

H. Concentrations

Concentrations include contribution income. Each year, the Foundation typically receives contributions from donors that are considered significant in relation to total contribution income. These contributions are generally restricted for a specific purpose and are not used for operations. During the year ended June 30, 2012, significant contributions include an amount from one donor whose contributions amounted to approximately 52 percent of total support.

I. Related Party Transactions

The staff of the Foundation are employees of Central Arizona College. The Foundation reimburses the College for a portion of the payroll expense of the Foundation's executive director (vacant for fiscal years 11/12) and the foundation secretary. The balance of accounts payable at June 30, 2012, is made up of amounts due to the college for these expenses. Other college employees assist the Foundation, and the Foundation is not charged for their services. No amounts have been recorded for these nonreimbursed payroll costs as the services are deemed to be solely for carrying out the operations of college activities. In addition, the president of the college is a voting member of the Foundation's Board of Directors. Other college employees, by virtue of their positions, provide advisory services within the Foundation. As a result, Central Arizona College has significant input regarding the Foundation's operations and goals. The current foundation investment advisor is also a voting member of the foundation board.

J. Restatement of Net Assets

During the year ended June 30, 2012, management determined that certain funds were misclassified among the net asset classes at the beginning of the year. As a result, the beginning balances of the net asset classes were restated. The majority of this restatement relates to nonendowed donations being misclassified as permanently restricted net assets as well as balances of scholarship specific donations not being classified as temporarily restricted net assets. This restatement had no effect on the change in net assets as of June 30, 2012. This restatement also had no effect on the total balance of net assets as of June 30, 2011.

The effect of the restatement of the balances at June 30, 2011, of the individual net asset classes is as follows:

	<b>As Previously Reported</b>	<b>Restated</b>	<b>Change</b>
Temporarily restricted net assets	\$ 241,665	\$ 733,755	<u>\$492,090</u>
Permanently restricted net assets	<u>3,515,648</u>	<u>3,023,558</u>	<u>(492,090)</u>
Total	<u>\$3,757,313</u>	<u>\$3,757,313</u>	<u>\$</u>



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## Supplementary Information

Pinal County Community College District  
(Central Arizona College)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
Hispanic-Serving Institutions Assisting Communities	14.514		<u>\$ 49,038</u>
<b>U.S. Department of Labor</b>			
Community Based Job Training Grants	17.269		<u>1,152,676</u>
<b>National Science Foundation</b>			
Engineering Grants, passed through Arizona State University	47.041	836050	15,794
Education and Human Resources, passed through University of New Mexico	47.076	DUE-1003736	<u>12,517</u>
Total National Science Foundation			<u>28,311</u>
<b>U.S. Small Business Administration</b>			
Small Business Development Centers, passed through Maricopa County Community College District	59.037	1-603001-Z-0003-19, 2-603001-Z-0003	<u>75,141</u>
<b>U.S. Department of Education</b>			
Adult Education—Basic Grants to States, passed through the Arizona Department of Education	84.002	12FAEABE-270612-01A, 12FAEAEF-270612-02A, 12FAECCP-270612-04A	271,225
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		100,430
Federal Work-Study Program	84.033		144,553
Federal Pell Grant Program	84.063		14,637,073
Federal Direct Student Loans	84.268		<u>7,156,767</u>
Total Student Financial Assistance Cluster			<u>22,038,823</u>
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	ED08-0014-08	68,585
Higher Education—Institutional Aid	84.031		351,615
TRIO—Student Support Services	84.042		265,705

(Continued)

See accompanying notes to schedule.

Pinal County Community College District  
(Central Arizona College)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012  
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
Career and Technical Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	11FCTDBG-170612-01A 12FCTDBG-270612-03A	\$ 116,281
Tech-Prep Education, passed through Pinal County Superintendent Consortium	84.243	11FCTDTP-170734-01A	1,029
ARRA—State Fiscal Stabilization Fund—Government Services, Recovery Act, passed through the Governor's Office of Economic Recovery	84.397	OER-11-CON-GS-42	<u>103,766</u>
Total U.S. Department of Education			<u>23,217,029</u>
 <b>Corporation for National and Community Service</b>			
AmeriCorps, passed through the Arizona Governor's Office for Children, Youth and Families	94.006	AC-VSG-10-0273-01Y3 AC-VSG-10-0273-01Y2	<u>85,309</u>
Total Expenditures of Federal Awards			<u>\$ 24,607,504</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, 2012

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 *2012 Catalog of Federal Domestic Assistance*.



**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, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 20, 2012. 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 are 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**

The District's management is responsible for establishing and maintaining effective 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, the other auditors identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 12-02 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and that is described in the accompanying Schedule of Findings and Questioned Costs as item 12-01.

Pinal County Community College District's response to the finding identified in our audit is presented on pages 43 through 44. We did not audit the District's response, and accordingly, we express no opinion on it.

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

December 20, 2012



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, 2012. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Pinal County Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and that is described in the accompanying Schedule of Findings and Questioned Costs as item 12-101.



## Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with 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 a deficiency in internal control over compliance that we consider to be a material weakness.

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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 12-101 to be a material weakness.

Pinal County Community College District's response to the finding identified in our audit is presented on pages 43 through 44. We did not audit the District's response and, accordingly, we express no opinion on it.

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

December 20, 2012

Pinal County Community College District  
 (Central Arizona College)  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2012

**Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:		Unqualified	
		<b>Yes</b>	<b>No</b>
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
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>
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.031	Higher Education—Institutional Aid
84.397	ARRA—State Fiscal Stabilization Fund—Government Services, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Pinal County Community College District  
(Central Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

**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, 2012

## Financial Statement Findings

12-01

### **The District needs to evaluate and improve controls over purchasing**

Criteria: The District spends a significant amount of public monies to acquire assets, such as land and facilities, and purchase goods and services. Therefore, it is essential that the District implement sound purchasing policies and procedures designed to help ensure that it receives the best possible value for the public monies it spends.

Condition and context: The District did not follow sound purchasing policies and procedures when it purchased land and other contracted services during the year. Specifically, auditors noted the following deficiencies:

- In September 2011, the District spent nearly \$8.7 million for approximately 201 acres of land for a new campus in the San Tan area of Pinal County. The District did not obtain a land appraisal prior to making this purchase to ensure that a fair price was paid for the land.
- The District renewed its food services and facilities maintenance contracts for 12 years and 5 years, respectively, without using competitive purchasing procedures. Both contracts, totaling nearly \$1.3 million annually, were with a vendor that the District had used for many years.

Effect: This deficiency could have resulted in the District's overpaying for land and awarding contracts that were not advantageous to the District.

Cause: The District's existing policies and procedures were not comprehensive since they did not address acquisitions of assets, such as land and facilities, and the procurement of many professional and multiple-year service contracts. In addition, the District's procedures did not provide sufficiently detailed guidance for employees to follow for purchasing and maintaining documentation. More importantly, the District did not always enforce its purchasing policies because it allowed management to circumvent purchasing procedures.

Recommendation: The District should evaluate and improve its existing purchasing policies using the Arizona State Procurement Code and best practices and policies established by other Arizona community college districts as guidelines. In addition, the District should establish detailed procedures for employees to follow when purchasing goods and services. These policies and procedures should be enforced for all purchases and require that the District:

- Obtain competitive sealed bids or proposals, as appropriate, for all purchases of construction, goods, and services, including contracted and professional services, exceeding the District's competitive bid threshold.

Pinal County Community College District  
(Central Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

- Prepare and maintain a bid file that contains a copy of the invitation to bid, 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 or bid 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 commencement of the work and payment to the vendor.
- Require a minimum number of vendors be contacted for oral and written price quotations and document vendors contacted and their quotations or their reasons for not providing quotations.
- Establish criteria for sole source determinations and require that documentation be prepared that clearly justifies there are no reasonable alternative sources prior to selecting the vendor.
- Require professional appraisals prior to purchasing land and facilities.

This finding is similar to a prior-year finding.

### **Component Unit Finding**

The other auditors who audited the Central Arizona College Foundation reported the following finding:

12-02

Central Arizona College Foundation

#### **Financial Reporting for Endowments**

During the audit, we noted the Foundation does not have the controls in place to accurately report and track endowment funds in accordance with generally accepted accounting standards. This resulted in a prior period restatement of net asset accounts in the amount of approximately \$492,000.

*Recommendation:* We recommend that the Foundation implement a process to properly track and report endowment funds. Accounting principles require that endowment funds are tracked individually in order to accurately report balances. A system should be put in place for allocating investment return to each individual fund on the basis of individual fund balances in relation to total fund balances. Records should be maintained to track individual endowment fund balances by adding or subtracting investment returns/losses and by appropriating expenditures in accordance with a spending policy.

*Benefit:* By properly allocating investment return and applying a spending policy to individual endowment funds, the Foundation will be able to appropriately track balances of individual funds in accordance with generally accepted accounting principles. Also, tracking and monitoring these fund balances can help in the Board's decision making to ensure the funds are maintained in perpetuity as restricted by the donors.

*Management's Response:* As of the date of this letter, the Foundation was able to conduct research to properly state its net asset position as of June 30, 2011 and 2012. The Foundation now has a better understanding of the controls and processes that are needed to ensure the financial statements are accurate and timely.

Pinal County Community College District  
(Central Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

Federal Award Findings and Questioned Costs

12-101

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

U.S. Department of Education

Award Period: October 1, 2007 through September 30, 2012

Award Numbers: P031S050056, P031S110058, P031C080002, and P031C110162

Procurement

Questioned Cost: Unknown

**Criteria:** The District is required to use procurement procedures that conform to applicable federal laws and regulations and standards. Accordingly, as described in item 12-01, the District is responsible for establishing sound purchasing policies and procedures to help ensure that it receives the best possible value for the public monies it spends. 34 Code of Federal Regulations §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.

**Condition and context:** The District paid contractors \$117,079 for goods and services during the year using program monies. As described in item 12-01, the District needs to evaluate and improve its internal controls over purchasing. For one of eight vendors tested, the District did not follow its policies and procedures when procuring goods and services that were paid with program monies. Specifically, the District renewed its food services contract for 12 years without using competitive purchasing procedures as required by the program's requirements, and charged the program \$14,323 during the year for these contracted services.

**Effect:** The District did not comply with the program's procurement requirements and may have awarded the contract to a vendor that was not advantageous to the District. 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 has the potential to affect other federal programs the District administers.

**Cause:** As described in item 12-01, the District's existing policies and procedures were not adequate to ensure compliance with the program's procurement requirements.

**Recommendation:** As described in item 12-01, the District should evaluate and improve its existing purchasing policies and develop detailed procedures and guidelines to help ensure that competitive purchasing practices are followed and to help ensure that it complies with federal program requirements.

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December 18, 2012

Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the standards applicable to the financial audits contained in *Government Auditing Standards* and 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, 2012

Financial Statement Findings

12-01

The District needs to evaluate and improve controls over purchasing.

Chris Wodka, Vice President of Finance and Administration

Anticipated Completion Date: March 2013

Corrective Action Plan: In June of 2012, the District strengthened some of its purchasing policies and procedures pertaining to the purchase of goods and services on contract. The District will continue to evaluate and improve existing policies which will include addressing all of the recommendations included in the description of the audit finding.

Federal Award Findings and Questioned Costs

12-101

CFDA No.: 84.031 Higher Education—Institutional Aid

Chris Wodka, Vice President of Finance and Administration

Anticipated Completion Date: March 2013

Corrective Action Undertaken: In June of 2012, the District strengthened some of its purchasing policies and procedures pertaining to the purchase of goods and services on contract. The District will continue to evaluate and improve existing policies which will include addressing all of the recommendations included in the description of the audit finding.



December 18, 2012

Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

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

Sincerely,

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, 2012

Status of Federal Award Findings and Questioned Costs

10-102

CFDA No.: 84.031 Higher Education—Institutional Aid

Status – Fully corrected.

11-101

CFDA No.: 84.031 Higher Education—Institutional Aid

Status – Fully corrected.