



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

---

Single Audit

# Pinal County Community College District

(Central Arizona College)

Year Ended June 30, 2004

---



---

**Debra K. Davenport**  
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.



Copies of the Auditor General's reports are free.  
You may request them by contacting us at:

**Office of the Auditor General**

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

**[www.auditorgen.state.az.us](http://www.auditorgen.state.az.us)**

Pinal County Community College District  
(Central Arizona College)  
Single Audit Reporting Package  
Year Ended June 30, 2004

Table of Contents	Page
<b>Financial Section</b>	
Independent Auditors' Report	
Management's Discussion and Analysis	i
Statement of Net Assets—Primary Government	1
Statement of Financial Position—Component Unit	3
Statement of Revenues, Expenses, and Changes in Net Assets—Primary Government	4
Statement of Activities—Component Unit	5
Statement of Cash Flows—Primary Government	6
Notes to Financial Statements	8
Supplementary Information	
Schedule of Expenditures of Federal Awards	20
<b>Single Audit Section</b>	
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 <i>Government Auditing Standards</i>	23
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	25
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results	27
Federal Award Findings and Questioned Costs	28
<b>District Responses</b>	
Corrective Action Plan	31
Summary Schedule of Prior Audit Findings	33



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

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

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Governing Board of  
Pinal County Community College District

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Pinal County Community College District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts for the discretely presented component unit, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Pinal County Community College District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, for the year ended June 30, 2004, which requires reporting as a component unit those organizations that raise and hold economic resources for the direct benefit of the District or its constituents.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2005, 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

May 18, 2005



---

**CENTRAL ARIZONA COLLEGE**

Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2004

The Pinal County Community College District prepared the following discussion and analysis of the District's financial performance that provides an overview of the District's financial activities for the year ended June 30, 2004. 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. During the 2003-04 fiscal year the District implemented Government Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations Are Component Units", which requires reporting 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. (the Foundation). The Foundation is audited separate from the District and its financial activity is presented in conjunction with the District's financial statements.

The Statement of Net Assets reflects the financial position of the District at June 30, 2004. The statement shows the assets, liabilities and other obligations, and net assets of the District. Net assets are defined as total assets less total liabilities, and as such, reflects the institutional equity in the total assets of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and changes for the year ended June 30, 2004. 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 equivalents inflows and outflows for the year ended June 30, 2004. It shows cash flows from operating activities, financing activities, and investing activities. It also provides for a reconciliation of beginning and ending cash and cash equivalent balances for the year and a reconciliation of the cash flows from operating activities to the operating income (loss) as reported on the Statement of Revenues, Expenses, and Changes in Net Assets.

◆ *District Offices* ◆

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

◆ *Campuses* ◆

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

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

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

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

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

Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2004

Condensed Financial Information

The condensed financial information below reflects the results of activity for fiscal year 2004. The financial information for the previous fiscal year 2003 is also presented as a reference point to illustrate trends for determining whether the institution's financial health is improving or deteriorating.

<u>Statement of Net Assets</u>	<u>As of June 30, 2004</u>	<u>As of June 30, 2003</u>	<u>Percent Change</u>
Assets:			
Current assets	\$11,060,412	\$ 7,014,786	58%
Noncurrent assets, other than capital assets	7,560,808	2,769,562	173
Capital assets, net	<u>32,215,391</u>	<u>33,047,346</u>	(3)
Total assets	<u>50,836,611</u>	<u>42,831,694</u>	19
Liabilities:			
Long-term liabilities	24,529,767	19,597,629	25
Other liabilities	<u>2,080,562</u>	<u>2,139,452</u>	(3)
Total liabilities	<u>26,610,329</u>	<u>21,737,081</u>	22
Net assets:			
Invested in capital assets, net of related debt	14,544,450	15,022,346	(3)
Restricted net assets	3,076,507	2,661,556	16
Unrestricted net assets	<u>6,605,325</u>	<u>3,410,711</u>	94
Total net assets	<u>\$24,226,282</u>	<u>\$21,094,613</u>	15

Pinal County Community College District  
 (Central Arizona College)  
 Management's Discussion and Analysis  
 Fiscal Year Ended June 30, 2004

<u>Statement of Revenues, Expenses, and Changes in Net Assets</u>			
	<u>Year Ended June 30, 2004</u>	<u>Year Ended June 30, 2003</u>	<u>Percent Change</u>
Operating revenues	\$ 11,346,292	\$ 10,532,382	8%
Operating expenses	<u>34,944,149</u>	<u>32,657,385</u>	7
Operating loss	<u>(23,597,857)</u>	<u>(22,125,003)</u>	7
Nonoperating revenues less expenses	<u>26,049,526</u>	<u>23,677,716</u>	10
Income before other revenues, expenses, gains, or losses	2,451,669	1,552,713	58
Other revenues, expenses, gains, or losses	<u>680,000</u>	<u>693,500</u>	(2)
Increase in net assets	3,131,669	2,246,213	39
Net assets, beginning of year	<u>21,094,613</u>	<u>18,848,400</u>	12
Net assets, end of year	<u>\$ 24,226,282</u>	<u>\$ 21,094,613</u>	15



Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2004

<u>Revenues by Source</u>	<u>Year Ended June 30, 2004</u>	<u>Year Ended June 30, 2003</u>	<u>Percent Change</u>
Operating revenues:			
Tuition and fees (net of scholarship allowances)	\$ 3,551,529	\$ 3,030,893	17%
Grants and contracts	6,252,203	6,072,481	3
Other operating	<u>1,542,560</u>	<u>1,429,008</u>	8
Total operating revenues	<u>11,346,292</u>	<u>10,532,382</u>	8
Nonoperating revenues:			
Property taxes	21,314,654	18,433,025	16
State appropriations	5,659,902	5,624,400	1
State-shared sales tax	494,992	483,442	2
Grants and contracts	74,566	4,424	1585
Investment income	89,124	62,528	43
Gain on disposal of capital assets	<u>45</u>	<u>2,325</u>	(98)
Total nonoperating revenues	<u>27,633,283</u>	<u>24,610,144</u>	12
Capital appropriations	658,000	693,500	(5)
Capital grants and gifts	<u>22,000</u>	<u>          </u>	100
Total revenues	<u>\$39,659,575</u>	<u>\$35,836,026</u>	11

Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2004

<u>Expenses by Function</u>	<u>Year Ended June 30, 2004</u>	<u>Year Ended June 30, 2003</u>	<u>Percent Change</u>
Operating expenses:			
Educational and general:			
Instruction	\$14,200,267	\$13,529,627	5%
Public service	113,879	102,534	11
Academic support	2,200,780	2,091,979	5
Student services	2,607,642	2,506,470	4
Institutional support	6,429,428	5,777,725	11
Operations and maintenance of plant	3,870,224	3,337,430	16
Scholarships	1,573,964	1,468,176	7
Auxiliary enterprises	1,816,348	1,868,610	(3)
Depreciation	<u>2,131,617</u>	<u>1,974,834</u>	8
Total operating expenses	<u>34,944,149</u>	<u>32,657,385</u>	7
Nonoperating expenses:			
Interest expense on debt	1,092,860	932,428	17
Other	<u>490,897</u>	<u>                    </u>	100
Total nonoperating expenses	<u>1,583,757</u>	<u>932,428</u>	70
Total expenses	<u>\$36,527,906</u>	<u>\$33,589,813</u>	9

## Financial Highlights and Analysis

The District's primary mission is to provide educational services to the residents of Pinal County through three campuses and two education centers. Primary sources of funding for these services are property taxes, state appropriations (includes capital appropriations), grants and contracts, and tuition and fees, which together represent approximately 94 percent of the total revenues for the District.

During fiscal year 2004, the financial support from the State of \$6.8 million and grants and contracts of \$6.3 million from federal, state, local, and private sources continued at the same level as the previous year. Property tax revenues increased by \$2.8 million to \$21.3 million due to rising property valuations and population growth within the County. Increases in student enrollment and a \$3-per-credit increase in general tuition were the main factors in generating a \$0.5 million increase in tuition and fee revenues. Increases in property taxes and tuition and fees contributed to the \$4 million increase in current assets. Noncurrent assets and long-term liabilities increased \$4.8 million and \$4.9 million, respectively, due primarily to the revenue bonds and pledged revenue obligations issued during the year to defease prior issues and to provide funds for new capital projects and improvements.

Pinal County Community College District  
(Central Arizona College)  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2004

Operating expenses rose 7 percent for fiscal year 2004 due mainly to a \$1.4 million increase in employee salaries and employee-related expenses and a \$1 million increase in contractual services.

In fiscal year 2004, the District's total net assets increased by \$3.1 million primarily comprised of the \$3.2 million increase in unrestricted net assets. Unrestricted net assets increased from the prior-year end due to larger increases in unrestricted revenues such as property tax revenues and tuition and fees revenues compared with a lower increase in expenses charged to unrestricted funds during fiscal year 2004. Overall, the District's financial position continues to improve and remains strong, with adequate resources to meet all current obligations.

### Capital Assets and Debt Administration

During the fiscal year, the District issued \$10,500,000 in revenue bonds and \$13,530,000 in pledged revenue obligations to provide \$5,000,000 in additional funding for new building construction at Signal Peak Campus, equipment, and improvements, and to advance-refund Series 1998 pledged revenue bonds and Series 1998 pledged revenue obligations. Although the District obtained a lower average interest rate on the refunding issues, the District had a present value economic loss of \$835,448 on the refunding due to the refunding issues' repayment period extending 4 to 6 years beyond the repayment period of the refunded issues. See Notes to Financial Statements, Note 4—Long-Term Liabilities for more information.

The District's bond issues and pledged revenue obligations are rated Baa1 by Moody's Investor Service.

The District had no significant acquisitions of capital assets during fiscal year 2004. Capital acquisitions for fiscal year 2004 totaled \$1.3 million, and with the increases in accumulated depreciation and the fiscal year 2004 capital asset disposals, the capital assets balance at June 30, 2004, was \$0.8 million less than the prior-year ending balance.

### Requests for Information

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

Pinal County Community College District  
(Central Arizona College)  
Statement of Net Assets—Primary Government  
June 30, 2004

	<u>Business-Type Activities</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 7,219,851
Receivables:	
Accounts (net of allowance of \$83,038)	1,482,719
Property taxes (net of allowance of \$33,752)	1,032,752
Government grants and contracts	828,732
Other	36,129
Inventories	<u>460,229</u>
Total current assets	<u>11,060,412</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	193,023
Cash and investments held by trustees	7,351,935
Student loans receivable	15,850
Capital assets, not being depreciated	2,693,648
Capital assets, being depreciated, net	<u>29,521,743</u>
Total noncurrent assets	<u>39,776,199</u>
Total assets	<u>50,836,611</u>

(Continued)

See accompanying notes to financial statements.

Pinal County Community College District  
(Central Arizona College)  
Statement of Net Assets—Primary Government  
June 30, 2004  
(Continued)

	<u>Business-Type Activities</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 402,941
Accrued payroll and employee benefits	733,186
Interest payable	360,255
Deposits held in custody for others	421,518
Insurance claims payable	162,662
Current portion of compensated absences payable	834,543
Current portion of long-term debt	<u>1,400,000</u>
Total current liabilities	<u>4,315,105</u>
Noncurrent liabilities:	
Compensated absences payable	831,706
Long-term debt	<u>21,463,518</u>
Total noncurrent liabilities	<u>22,295,224</u>
Total liabilities	<u>26,610,329</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	14,544,450
Restricted:	
Expendable:	
Scholarships	13,514
Grants and contracts	487,002
Loans	68,432
Debt service	1,995,673
Capital projects	511,886
Unrestricted	<u>6,605,325</u>
Total net assets	<u>\$ 24,226,282</u>

See accompanying notes to financial statements.

Pinal County Community College District  
 (Central Arizona College)  
 Statement of Financial Position—Component Unit  
 June 30, 2004

	<u>Central Arizona College Foundation</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 395,167
Investments	<u>2,549,485</u>
Total assets	<u>2,944,652</u>
<b>Liabilities</b>	
Accounts payable	<u>231,812</u>
<b>Net Assets</b>	
Temporarily restricted	254,783
Permanently restricted	<u>2,458,057</u>
Total net assets	<u>2,712,840</u>
Total liabilities and net assets	<u><u>\$ 2,944,652</u></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, 2004

	<u>Business-Type Activities</u>
Operating revenues:	
Tuition and fees (pledged as security for revenue obligations and bonds and net of scholarship allowances of \$2,074,125)	\$ 3,551,529
Government grants and contracts	6,021,714
Private grants and contracts	230,489
Bookstore income (pledged as security for revenue obligations and bonds and net of scholarship allowances of \$506,013)	718,557
Food service income (pledged as security for revenue obligations and bonds)	106,128
Dormitory rentals and fees (pledged as security for revenue obligations and bonds and net of scholarship allowances of \$183,562)	288,590
Other	<u>429,285</u>
Total operating revenues	<u>11,346,292</u>
Operating expenses:	
Educational and general:	
Instruction	14,200,267
Public service	113,879
Academic support	2,200,780
Student services	2,607,642
Institutional support	6,429,428
Operation and maintenance of plant	3,870,224
Scholarships	1,573,964
Auxiliary enterprises	1,816,348
Depreciation	<u>2,131,617</u>
Total operating expenses	<u>34,944,149</u>
Operating loss	<u>(23,597,857)</u>
Nonoperating revenues (expenses):	
Property taxes	21,314,654
State appropriations	5,659,902
Share of state sales taxes	494,992
Government grants and contracts	74,566
Investment income	89,124
Interest expense on debt	(1,092,860)
Gain on disposal of capital assets	45
Other	<u>(490,897)</u>
Net nonoperating revenues	<u>26,049,526</u>
Income before other revenues, expenses, gains, or losses	<u>2,451,669</u>
Capital appropriations	658,000
Capital grants and gifts	<u>22,000</u>
Increase in net assets	<u>3,131,669</u>
Total net assets, July 1, 2003	<u>21,094,613</u>
Total net assets, June 30, 2004	<u>\$ 24,226,282</u>

See accompanying notes to financial statements.

Pinal County Community College District  
(Central Arizona College)  
Statement of Activities—Component Unit  
Year Ended June 30, 2004

	Central Arizona College Foundation			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains, and other support				
Contributions		\$ 27,461	\$ 173,035	\$ 200,496
Contributions—fund raisers		32,594		32,594
Dividends and interest		69,191		69,191
Net realized and unrealized gains on investments		<u>257,478</u>	<u>                    </u>	<u>257,478</u>
Total revenues, gains, and other support		<u>386,724</u>	<u>173,035</u>	<u>559,759</u>
 Expenses and losses				
Scholarships	\$ 47,531			47,531
Fund raising expenses	17,598			17,598
Office operations expenses	<u>111,063</u>			<u>111,063</u>
Total expenses and losses	<u>176,192</u>			<u>176,192</u>
 Net assets released from restrictions	176,192	(176,192)		
Transfers	<u>                    </u>	<u>(52,166)</u>	<u>52,166</u>	<u>                    </u>
 Changes in net assets		<u>158,366</u>	<u>225,201</u>	<u>383,567</u>
 Net assets, July 1, 2003	<u>                    </u> -	<u>96,417</u>	<u>2,232,856</u>	<u>2,329,273</u>
Net assets, June 30, 2004	<u>\$                    </u> -	<u>\$254,783</u>	<u>\$2,458,057</u>	<u>\$2,712,840</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, 2004

	<u>Business-Type Activities</u>
Cash flows from operating activities:	
Tuition and fees	\$ 3,121,765
Grants and contracts	6,043,993
Bookstore receipts	704,841
Food services receipts	106,128
Dormitory rentals and fees	281,398
Collection of loans to students	58,950
Other receipts	373,039
Payments to employees	(21,963,266)
Payments to suppliers and providers of goods and services	(8,354,131)
Payments to students for scholarships	(1,581,804)
Payments to students for loans	(56,246)
Other payments	<u>(734,270)</u>
Net cash used for operating activities	<u>(21,999,603)</u>
Cash flows from noncapital financing activities:	
Property taxes	20,906,567
State appropriations	5,659,902
Share of state sales taxes	494,992
Deposits held in custody for others	<u>4,331</u>
Net cash provided by noncapital financing activities	<u>27,065,792</u>
Cash flows from capital and related financing activities:	
Property taxes	421,672
Proceeds from issuance of capital debt, net of refunding portion	5,182,251
Capital appropriations	658,000
Government grants	6,636
Proceeds from sale of capital assets	45
Principal paid on capital debt	(1,140,000)
Interest paid on capital debt	(883,214)
Purchases of capital assets	<u>(1,277,662)</u>
Net cash provided by capital and related financing activities	<u>2,967,728</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	2,749,258
Interest received on investments	89,124
Purchases of investments	<u>(8,526,703)</u>
Net cash used for investing activities	<u>(5,688,321)</u>
Net increase in cash and cash equivalents	2,345,596
Cash and cash equivalents, July 1, 2003	<u>5,067,278</u>
Cash and cash equivalents, June 30, 2004	<u>\$ 7,412,874</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, 2004  
(Continued)

	<b>Business-Type Activities</b>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (23,597,857)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	2,131,617
Changes in assets and liabilities:	
Increase in:	
Receivables, net	(724,797)
Inventories	(11,959)
Accrued payroll and employee benefits	276,929
Compensated absences payable	93,620
Decrease in:	
Student loans receivable	2,704
Accounts payable	(144,451)
Insurance claims payable	(25,409)
Net cash used for operating activities	\$ (21,999,603)

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2004, the District issued revenue bonds and pledged revenue obligations in the principal amount of \$24,030,000 to refund \$16,830,000 of Series 1998 revenue bonds and Series 1998 pledged revenue obligations and for new construction, equipment, and other District improvements. The District received proceeds of \$24,263,947 that included \$233,947 of premium and accrued interest. Of the proceeds, \$18,356,852 was deposited in irrevocable trusts to pay future debt service payments on the refunded debt, \$907,095 was expended on issuance and related costs, and the remaining \$5 million will be used by the District for new construction, equipment, and improvements.

The District also disposed of capital assets in the amount of \$1,012,498 that were fully depreciated.

See accompanying notes to financial statements.

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2004

## Note 1 - Summary of Significant Accounting Policies

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

During the year ended June 30, 2004, the District implemented the provisions of the Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which requires reporting as a component unit those organizations that raise and hold economic resources for the direct benefit of the District.

### A. Reporting Entity

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

The Central Arizona College Foundation is a legally separate, tax-exempt organization. It acts primarily as a fund-raising organization that receives gifts and bequests, administers those resources, and disburses payments to the District for scholarships and college development activities. Although the District does not control the timing or amount of receipts from the Foundation, the Foundation's restricted resources can only be used by, or for the benefit of, the District or its constituents. Consequently, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements. For financial reporting purposes only the Foundation's statements of financial position and activities are included in the District's financial statements as required by generally accepted accounting principles for public colleges and universities.

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board statements for non-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the District. The Foundation has a June 30 year-end.

For the year ended June 30, 2004, \$231,812 was due from the Foundation to the District for both restricted and unrestricted purposes. The Foundation made no distributions to the District during fiscal year 2004. Complete financial statements for the Foundation can be obtained from the Central Arizona College Foundation, 8470 N. Overfield Road-H116, Coolidge, AZ 85228.

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2004

## B. Basis of Presentation and Accounting

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

A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy the District's obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

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

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

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

Pinal County Community College District  
 (Central Arizona College)  
 Notes to Financial Statements  
 June 30, 2004

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.

### C. Cash and Investments

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

### D. Inventories

The bookstore inventory is stated at cost by specific identification. All other inventories are stated at the lower of cost (first-in, first-out method) or market.

### E. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	N/A	N/A
Buildings	\$3,000	Straight-line	40 years
Improvements other than buildings	3,000	Straight-line	15 years
Equipment	3,000	Straight-line	5 years
Library books	All	Straight-line	10 years

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2004

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

#### F. Investment Income

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

#### G. Compensated Absences

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

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

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

#### H. Scholarship Allowances

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

#### Note 2 - Deposits and Investments

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

Pinal County Community College District  
 (Central Arizona College)  
 Notes to Financial Statements  
 June 30, 2004

Deposits—At June 30, 2004, the carrying amount of the District’s deposits was \$1,299,165, and the bank balance was \$1,503,550. Of the bank balance, \$115,265 was covered by federal depository insurance, and \$1,388,285 was covered by collateral held by the pledging financial institution’s trust department or agent in the District’s name.

Investments—At June 30, 2004, the District’s investments consisted of the following:

	<b>Fair Value</b>
Cash and investments held by the County Treasurer	\$ 6,082,801
Cash and investments held by trustees	<u>7,359,488</u>
Total	<u>\$13,442,289</u>

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

The District’s cash and investments held by trustees consisted of \$7,553 cash, \$607,000 in U.S. treasury bills, and \$6,744,935 in a mutual fund. The U.S. treasury bills were purchased by the trustee and held in the trustee’s Federal Reserve Bank accounts. The U.S. treasury bills are recorded in the District’s name in the trustee’s records. The District owns shares of a mutual fund that invests in U.S. treasury obligations and repurchase agreements secured by U.S. treasury obligations. The mutual fund shares were purchased by the trustee in the District’s name, and the trustee acts as both purchasing and selling agent for the investment transactions in accordance with the trust agreement.

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

Cash and investments:		Statement of Net Assets:	
Cash on hand	\$ 23,355	Cash and cash equivalents	\$ 7,219,851
Carrying amount of deposits	1,299,165	Restricted assets:	
Reported amount of investments	<u>13,442,289</u>	Cash and cash equivalents	193,023
		Cash and investments held by trustees	<u>7,351,935</u>
Total	<u>\$14,764,809</u>	Total	<u>\$14,764,809</u>

### Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2004

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 2,545,147			\$ 2,545,147
Construction in progress (estimated cost to complete \$4,476,505)	<u>                    </u>	\$ 148,501		<u>148,501</u>
Total capital assets not being depreciated	<u>2,545,147</u>	<u>148,501</u>		<u>2,693,648</u>
Capital assets being depreciated:				
Buildings	38,706,997	347,771		39,054,768
Improvements other than buildings	3,616,876	81,994		3,698,870
Equipment	9,673,770	649,262	\$ 526,571	9,796,461
Library books	<u>1,730,897</u>	<u>72,134</u>	<u>485,927</u>	<u>1,317,104</u>
Total capital assets being depreciated	<u>53,728,540</u>	<u>1,151,161</u>	<u>1,012,498</u>	<u>53,867,203</u>
Less accumulated depreciation for:				
Buildings	12,872,795	1,074,708		13,947,503
Improvements other than buildings	1,073,966	215,051		1,289,017
Equipment	7,975,654	757,452	526,571	8,206,535
Library books	<u>1,303,926</u>	<u>84,406</u>	<u>485,927</u>	<u>902,405</u>
Total accumulated depreciation	<u>23,226,341</u>	<u>2,131,617</u>	<u>1,012,498</u>	<u>24,345,460</u>
Total capital assets being depreciated, net	<u>30,502,199</u>	<u>(980,456)</u>		<u>29,521,743</u>
Capital assets, net	<u>\$33,047,346</u>	<u>\$ (831,955)</u>	<u>\$ -0-</u>	<u>\$32,215,391</u>

The July 1, 2003, beginning balance amounts for buildings and improvements other than buildings were reported in the prior year as buildings and improvements and were reclassified separately above to provide additional information.

#### Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due within 1 year
Compensated absences payable	<u>\$ 1,572,629</u>	<u>\$ 1,053,886</u>	<u>\$ 960,266</u>	<u>\$ 1,666,249</u>	<u>\$ 834,543</u>
Bonds payable:					
General obligation bonds	\$ 35,000			\$ 35,000	\$ 35,000
Revenue bonds	8,225,000	\$10,500,000	\$ 8,205,000	10,520,000	660,000
Deferred amount on refunding		<u>(748,083)</u>	<u>(149,616)</u>	<u>(598,467)</u>	
Total bonds payable	<u>8,260,000</u>	<u>9,751,917</u>	<u>8,055,384</u>	<u>9,956,533</u>	<u>695,000</u>
Pledged revenue obligations payable	9,765,000	13,530,000	9,765,000	13,530,000	705,000
Deferred amount on refunding		<u>(778,769)</u>	<u>(155,754)</u>	<u>(623,015)</u>	
Total long-term debt	<u>\$18,025,000</u>	<u>\$22,503,148</u>	<u>\$17,664,630</u>	<u>\$22,863,518</u>	<u>\$1,400,000</u>



Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2004

**Bonds**—The District had \$35,000 of General Obligation Bonds in arrears at June 30, 2004, that had matured on July 1, 2002, which have not been presented by the holders for redemption. The District has two issues of revenue bonds that are generally callable with interest payable semiannually. Revenue bond proceeds primarily pay for acquiring or constructing capital facilities. In addition, a portion of the revenue bonds proceeds for the Series 2004 were used to advance refund a prior higher-rate revenue bond issue. Revenue bonds are repaid from tuition, fees, rentals, and other sales and services. Bonds outstanding at June 30, 2004, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue Bonds—Series 1973	\$ 300,000	7/1/04	5.3%	\$ 20,000
Revenue Bonds—Series 2004	10,500,000	7/1/04-18	2.5-4.5%	10,500,000

The following schedule details debt service requirements to maturity for the District's bonds payable at June 30, 2004:

Year ending June 30,	Revenue Bonds	
	Principal	Interest
2005	\$ 660,000	\$ 369,194
2006	550,000	388,031
2007	565,000	372,681
2008	580,000	355,506
2009	600,000	334,806
2010-14	3,380,000	1,276,897
2015-18	<u>4,185,000</u>	<u>457,481</u>
Total	<u>\$10,520,000</u>	<u>\$3,554,596</u>

During the year ended June 30, 2004, the District issued revenue bonds, with an average interest rate of 3.84 percent, of which a portion of the proceeds were used to advance-refund the Series 1998 revenue bond issue with an average interest rate of 5.4 percent. The District realized net proceeds of \$10,348,083 (includes \$221,408 of premium and accrued interest), after payment of \$373,325 in underwriting fees, insurance, and other issuance costs. Of the proceeds, \$8,588,083 was placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased and related liabilities are not included in the District's financial statements. The remaining \$1,760,000 will be used for new construction, equipment, and improvements. Details of the refunding transactions are as follows:

Principal amount of revenue refunding bonds issued,	
used for the advance-refunding	\$8,715,000
Amount of revenue bonds refunded	7,840,000
Increase in debt service payments	992,097
Economic loss	398,836

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2004

The repayment period for the refunding issue extends 4 years beyond the repayment period of the refunded issue, thus resulting in an economic loss (difference between the present value of the old and new debt service payments) on the refunding.

**Pledged Revenue Obligations**—The District’s pledged revenue obligations were issued to provide monies for new construction, equipment, and improvements. In addition, a portion of the proceeds were used to advance-refund a prior higher-rate pledged revenue obligation issue. The obligations are secured by tuition, fees, rentals, and other sales and services of the District and are callable with interest payable semiannually.

Pledged revenue obligations requirements at June 30, 2004, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Pledged Revenue Obligations— Series 2004	\$13,530,000	7/1/04-18	2.0-4.125%	\$13,530,000

The following schedule details debt service requirements to maturity for the District’s pledged revenue obligations payable at June 30, 2004:

Year Ending June 30,	<u>Pledged Revenue Obligations</u>	
	Principal	Interest
2005	\$ 705,000	\$ 406,739
2006	750,000	429,806
2007	765,000	409,397
2008	790,000	384,638
2009	815,000	361,581
2010-14	4,420,000	1,439,000
2015-18	<u>5,285,000</u>	<u>546,888</u>
Total	<u>\$13,530,000</u>	<u>\$3,978,049</u>

During the year ended June 30, 2004, the District issued pledged revenue obligations, with an average interest rate of 3.25 percent, of which a portion of the proceeds were used to advance-refund the Series 1998 pledged revenue obligations with an average interest rate of 4.92 percent. The District realized net proceeds of \$13,008,769 (includes \$12,539 of accrued interest), after payment of \$533,770 in underwriting fees, insurance, and other issuance costs. Of the proceeds, \$9,768,769 was placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased and related liabilities are not included in the District’s financial statements. The remaining \$3,240,000 will be used for new construction, equipment, and improvements. Details of the refunding transactions are as follows:

Pinal County Community College District  
 (Central Arizona College)  
 Notes to Financial Statements  
 June 30, 2004

Principal amount of refunding pledged revenue obligations issued, used for the advance-refunding	\$10,165,000
Amount of pledged revenue obligations refunded	8,990,000
Increase in debt service payments	2,037,919
Economic loss	436,612

The repayment period for the refunding issue extends 6 years beyond the repayment period of the refunded issue, thus resulting in an economic loss (difference between the present value of the old and new debt service payments) on the refunding.

### Note 5 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with seven other Arizona community college districts and more than 200 Arizona school districts in the Arizona School Risk Retention Trust, Inc., a public-entity risk pool. The Trust insures the District against liabilities arising from general liability, professional liability, property, automobile, boiler and machinery, and commercial crime risks. The Trust's operating agreement includes a provision for the member to be charged an additional assessment in the event that total claims paid by the Trust exceed the members' contributions and reserves in any 1 year. The District will be charged for any such assessment in the following year. The District has never been charged such an assessment. The District also carries commercial insurance for other risks of loss, including: workers' compensation, accidental death and dismemberment for students and employees, employee travel, and extended reporting for errors and omissions. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

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

The insurance claims payable liability of \$162,662 at June 30, 2004, is the estimated ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. This estimate is based on historical data for health insurance and eye care insurance claims reported during the year, prior-year claims of continuing duration, and claims incurred but not reported as of June 30, 2004. Changes in the District's claims payable for the years ended June 30, 2004 and 2003, were as follows:

Pinal County Community College District  
(Central Arizona College)  
Notes to Financial Statements  
June 30, 2004

	2004	2003
Claims payable, beginning of year	\$ 188,071	\$ 272,921
Current year claims and changes in estimates	1,517,583	2,117,702
Claim payments	<u>(1,542,992)</u>	<u>(2,202,552)</u>
Claims payable, end of year	<u>\$ 162,662</u>	<u>\$ 188,071</u>

### Note 6 - Retirement Plan

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

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

**Funding policy**—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2004, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and .5 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2004, 2003, and 2002, were \$885,186, \$373,017, and \$349,253, respectively, which were equal to the required contributions for the year.

### Note 7 - Operating Expenses

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

Personal services	\$22,308,406
Contract services	3,402,835
Supplies and other services	3,984,102
Communications and utilities	1,284,852
Scholarships	1,573,964
Depreciation	2,131,617
Other	<u>258,373</u>
Total	<u>\$34,944,149</u>

Pinal County Community College District  
 (Central Arizona College)  
 Notes to Financial Statements  
 June 30, 2004

Note 8 - Central Arizona College Foundation

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

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

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

**Restricted Net Assets**—Permanently restricted net assets are restricted to:

Investment in perpetuity, the income from which is expendable to support:

Promise for the Future Program	\$ 567,659
Other restricted scholarship programs	1,723,543
Activities of the Foundation	<u>166,855</u>
Total	<u>\$2,458,057</u>

Temporarily restricted net assets are available for the following purposes:

Foundation activities and scholarships	\$254,783
--	-----------

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

Supplementary Information

Pinal County Community College District  
(Central Arizona College)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Justice</b>			
Passed through the Arizona Police Officers Standards and Training Board Police Corps	16.712	None	<u>\$ 249,415</u>
<b>National Aeronautics and Space Administration</b>			
Passed through Cuyahoga Community College Science, Engineering, Mathematics and Aerospace Academy	43.unknown	NAS3-02123-CAC	<u>312,194</u>
<b>National Science Foundation</b>			
Passed through Arizona State University Education and Human Resources	47.076	DOE-0202 444	<u>25,000</u>
<b>U.S. Small Business Administration</b>			
Passed through Maricopa County Community College District Small Business Development Center	59.037	4-6003001-Z-0003-12 3-6003001-Z-0003-11	<u>108,375</u>
<b>U.S. Department of Education</b>			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		83,630
Federal Work-Study Program	84.033		98,359
Federal Pell Grant Program	84.063		<u>3,029,436</u>
Total Student Financial Assistance Cluster			<u>3,211,425</u>
Higher Education—Institutional Aid	84.031		341,863
Bilingual Education—Professional Development	84.195		194,117
Special Education—Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325		182,570
Child Care Access Means Parents in School	84.335		23,784
Preparing Tomorrow's Teachers to Use Technology	84.342		4,530
Passed through the Arizona Department of Education			
Adult Education—State Grant Program	84.002	04FAEABE-470612-01A	108,525
Special Education—Grants to States	84.027	ED03-0030-08	57,957
Vocational Education—Basic Grants to States	84.048	03FCTDBG-370612-03A 04FCTDBG-470612-03A	174,333

(Continued)

See accompanying notes to schedule.

Pinal County Community College District  
(Central Arizona College)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2004  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Even Start—Migrant Education	84.214	03-24-ED 04-FECMEE-470612-04C	\$ 148,219
Passed through the Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	None	6,439
Passed through Pinal County Tech-Prep Consortium Tech-Prep Education	84.243	04FCTDTP-470734-01A	12,000
Passed through Arizona State University Early Childhood Educator Professional Development	84.349	S349A030112	<u>52,912</u>
Total U.S. Department of Education			<u>4,518,674</u>
<b>U.S. Department of Health and Human Services</b>			
Passed through the Arizona Department of Economic Security			
Child Care and Development Block Grant	93.575	E5403516, E5404518	575,747
Maternal and Child Health Services Block Grant to the States	93.994	161072	<u>11,442</u>
Total U.S. Department of Health and Human Services			<u>587,189</u>
 Total Expenditures of Federal Awards			 <u>\$ 5,800,847</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, 2004

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 2004 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

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

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of  
Pinal County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Pinal County Community College District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 18, 2005. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 39 and was modified due to our reliance on the report of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

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

## Compliance and Other Matters

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

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

Debbie Davenport  
Auditor General

May 18, 2005



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

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

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of  
Pinal County Community College District

### **Compliance**

We have audited the compliance of Pinal County Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in items 04-102 and 04-103 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with the requirements regarding allowable costs/cost principles and special tests and provisions that are applicable to its Child Care and Development Block Grant. Compliance with these requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Pinal County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 04-101.

### **Internal Control over Compliance**

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

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-101, 04-102, and 04-103.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-102 and 04-103 to be material weaknesses.

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

Debbie Davenport  
Auditor General

May 18, 2005

Pinal County Community College District  
 (Central Arizona College)  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2004

**Summary of Auditors' Results**

***Financial Statements***

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

***Federal Awards***

Material weaknesses identified in internal control over major programs?	<u>X</u>		
Reportable condition identified not considered to be a material weakness?	<u>X</u>		
Type of auditors' report issued on compliance for major programs:		Unqualified for all major programs except for the Child Care and Development Block Grant, which was qualified.	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>		

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.007	Student Financial Assistance Cluster:
84.033	Federal Supplemental Educational Opportunity Grants
84.063	Federal Work-Study Program
93.575	Federal Pell Grant Program
	Child Care and Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:		\$ 300,000	
Auditee qualified as low-risk auditee?	—		<u>X</u>

***Other Matters***

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

Pinal County Community College District  
(Central Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004

**Federal Award Findings and Questioned Costs**

04-101

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants

84.033 Federal Work-Study Program

84.063 Federal Pell Grant Program

U.S. Department of Education

Award Year: October 1, 2002 through September 30, 2003

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

Eligibility

Questioned Cost: \$6,325

The District awarded financial assistance to students using the standard-term and non-term credit hour formulas. The District included open entry/open exit courses in its student financial aid calculations. As a result, 151 of the 1,414 students who received financial assistance awards were enrolled in at least one open entry/open exit course. Open entry/open exit courses allow students to exit the course when set objectives are achieved. In addition, Early Child Development open entry/open exit courses were taught simultaneously which allowed students to earn up to 12 credit hours while attending class an equivalent of only 6 credit hours. These courses should not be included in the student financial aid award calculation since open entry/open exit course instruction methods do not conform with any approved federal funding formula as specified by 34 Code of Federal Regulations (CFR) §§668 and 690.

Auditors noted that 5 of 35 students tested were enrolled in Early Childhood Development open entry/open exit courses resulting in questioned costs of \$6,325. Auditing procedures were not extended to determine if there were questioned costs related to the remaining 146 students awarded \$224,139, since it was not practical to verify whether the students were enrolled in a sufficient number of standard-term or non-term credit courses meeting approved funding calculation guidelines.

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

To comply with 34 CFR §§668 and 690, the District should only award student financial assistance to students enrolled in courses that meet approved funding calculation guidelines.

Pinal County Community College District  
(Central Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004

04-102

CFDA No.: 93.575 Child Care and Development Block Grant

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

Award Year: July 1, 2003 through June 30, 2004

Award Number: E5403516, E5404518

Allowable Costs/Cost Principles

Questioned Cost: \$36,767

The District did not establish adequate policies and procedures to ensure that expenditures charged to the Child Care and Development Block Grant complied with the requirements of Office of Management and Budget (OMB) Circular A-21 *Cost Principles for Educational Institutions* as required by the intergovernmental agreement with the ADES.

The District did not have procedures to ensure that staff responsible for reviewing and approving expenditures received the necessary training to determine if expenditures were in accordance with OMB Circular A-21. Further, the District did not have copies of federal guidelines or written policies and procedures to identify unallowable costs. Due to the inadequate controls, unallowable expenditures were charged to the program. Auditors noted travel reimbursements in excess of the District's standard policy; salaries and wages not directly associated with the grant; inadequate justification for food, restaurant, and lodging charges; promotional items; and payments to vendors with either inadequate documentation or handwritten receipts used as support. Total questioned costs noted were \$36,767; however, it was not practical to extend our auditing procedures to determine additional questioned costs, if any.

This finding is considered a material internal control weakness and material noncompliance with the Child Care and Development Block Grant intergovernmental agreement.

To comply with the intergovernmental agreement, the District should establish and implement the necessary controls, including written policies and procedures, and provide sufficient training to ensure expenditures charged to the Child Care and Development Block Grant comply with the requirements of OMB Circular A-21.



Pinal County Community College District  
(Central Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004

04-103

CFDA No.: 93.575 Child Care and Development Block Grant

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

Award Year: July 1, 2003 through June 30, 2004

Award Number: E5403516, E5404518

Special Tests and Provisions

Questioned Cost: Unknown

The District billed the program \$292,498 for students enrolled in open entry/open exit Early Childhood Education courses. Students completed these courses when specified objectives were achieved instead of attending classes over a set time period. Although the intergovernmental agreement with the ADES required that course participants achieve competency objectives, the District did not establish policies or procedures, or maintain adequate documentation, to determine and support that participants achieved course competency objectives. Consequently, it was not practical to extend our auditing procedures to determine questioned costs, if any, related to this finding.

This finding is considered a material internal control weakness and material noncompliance with the Child Care and Development Block Grant intergovernmental agreement.

To comply with the intergovernmental agreement's educational service requirements and objectives, the District should establish written policies and procedures to support all course competency objectives and maintain supporting documentation that course participants have achieved the specified objectives.

July 11, 2005

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 U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Dennis A. Jenkins  
Vice President  
Finance and Community Development

Pinal County Community College District  
(Central Arizona College)  
Corrective Action Plan  
Year Ended June 30, 2004

04-101

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants  
84.033 Federal Work-Study Program  
84.063 Federal Pell Grant Program

Dennis Jenkins, Vice President of Finance and Community Development  
(520)-426-4230 Anticipated Completion Date: July 31, 2005

Corrective Action Plan – Procedures for calculating federal financial assistance awards for students taking open entry/open exit courses are being reviewed and modifications will be made if necessary to fully comply with 34 Code of Federal Regulations Sections 668 & 690.

04-102

CFDA No.: 93.575 Child Care and Development Block Grant

Dennis Jenkins, Vice President of Finance and Community Development  
(520)-426-4230 Anticipated Completion Date: June 30, 2005

Corrective Action Plan - Procedures and staff training have been strengthened to ensure that expenditures charged to the Child Care and Development Block Grant fully comply with OMB Circular A-21 Cost Principles for Educational Institutions.

04-103

CFDA No.: 93.575 Child Care and Development Block Grant

Dennis Jenkins, Vice President of Finance and Community Development  
(520)-426-4230 Anticipated Completion Date: June 30, 2005

Corrective Action Plan - Procedures have been developed and strengthened for the Early Childhood Education courses to document course competency objectives and to maintain supporting documentation that course participants have achieved those objectives.

July 6, 2005

Debbie Davenport  
Auditor General  
2910 N. 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.

Sincerely,

Dennis A. Jenkins  
Vice President  
Finance and Community Development

Pinal County Community College District  
(Central Arizona College)  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2004

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

Finding No. 03-101

CFDA No.: 84.342 Preparing Tomorrow's Teachers to Use Technology

U.S. Department of Education

Award Period: October 1, 1999 – June 30, 2003

Award Number: P342A990211-01

Status: Fully Corrected