



REPORT HIGHLIGHTS SINGLE AUDIT

Subject

The District is responsible for preparing financial statements, complying with federal and state laws, and maintaining strong internal controls over compliance and financial reporting. As the auditors, our job is to determine whether the District has met its responsibilities. The District's Single Audit Reporting Package includes our report on the District's financial statements, including its Schedule of Expenditures of Federal Awards, and our reports on the District's compliance and internal control.

Our Conclusion

The information in the District's financial statements is fairly stated in all material respects, and the financial statements can be relied upon. The District maintained adequate internal controls over financial reporting, with two exceptions. Also, the District maintained adequate internal controls over, and complied with, federal program requirements, with two exceptions.



2006

Year Ended June 30, 2006

District's Condensed Financial Information

The following tables present summarized versions of the District's Statement of Net Assets and its Statement of Revenues, Expenses, and Changes in Net Assets.

Statement of Net Assets

The Statement of Net Assets reports all assets and liabilities using the accrual basis of accounting, which is similar to the accounting that most private-sector institutions use. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health. The table to the right presents a condensed Statement of Net Assets as of June 30, 2006 and 2005.

Statement of Net Assets As of June 30, 2006 and 2005 (In thousands)		
	2006	2005
Assets		
Current	\$19,575	\$14,736
Noncurrent assets, other than capital assets	4,290	5,351
Capital assets, net of depreciation	<u>36,969</u>	<u>36,208</u>
Total assets	<u>60,834</u>	<u>56,295</u>
Liabilities		
Current	5,530	6,416
Noncurrent	<u>20,584</u>	<u>21,322</u>
Total liabilities	<u>26,114</u>	<u>27,738</u>
Net Assets		
Invested in capital assets, net of related debt	15,835	15,467
Restricted	4,501	3,429
Unrestricted	<u>14,384</u>	<u>9,661</u>
Total net assets	<u>\$34,720</u>	<u>\$28,557</u>

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the District's operating results, as well as nonoperating revenues and expenses. Revenues and expenses are classified as operating if they relate to the District's primary activities, such as instruction and public service. All other revenues and expenses, such as state appropriations, property tax revenues, and interest expense on capital debt, are considered nonoperating. The change in net assets indicates whether the District's financial health has improved or deteriorated as a result of current-year operations. The District's net assets increased by \$6.2 million during the fiscal year. The table to the right summarizes the District's revenues and expenses for the years ended June 30, 2006 and 2005.

Revenues and Expenses For the Years Ended June 30, 2006 and 2005 (In thousands)		
	2006	2005
Operating Revenues		
Tuition and fees	\$ 3,590	\$ 3,355
Government grants and contracts	5,526	6,343
Other	<u>1,630</u>	<u>1,324</u>
Total operating revenues	<u>10,746</u>	<u>11,022</u>
Nonoperating Revenues		
Property taxes	26,851	23,413
State appropriations	5,916	5,659
Other	<u>2,229</u>	<u>886</u>
Total nonoperating revenues	<u>34,996</u>	<u>29,958</u>
Capital appropriations	768	711
Capital grants and gifts	<u>230</u>	<u>1,310</u>
Total revenues	<u>\$46,740</u>	<u>\$43,001</u>
Operating Expenses		
Educational and general	\$35,386	\$33,969
Auxiliary enterprises	1,842	1,608
Depreciation	<u>2,228</u>	<u>1,955</u>
Total operating expenses	<u>39,456</u>	<u>37,532</u>
Nonoperating Expenses		
Interest expense	1,109	1,138
Other	<u>12</u>	<u>—</u>
Total nonoperating expenses	<u>1,121</u>	<u>1,138</u>
Total expenses	<u>\$40,577</u>	<u>\$38,670</u>

The District Should Strengthen Internal Controls over Purchasing and its Computer System

It is critical that the District establish and enforce effective internal control policies and procedures. However, auditors identified the following reportable conditions in the design and operation of the District's internal controls over purchasing and its computer system.

Purchasing

The District's purchasing policies and procedures were not always enforced and did not require competitive sealed bidding for purchases other than construction projects. As a result, the District either purchased goods or services without competition or did not maintain documentation supporting competitive purchasing procedures followed. Further, written documentation was not maintained

when the lowest vendor was not selected or a sole source vendor was used. The District needs to revise and enforce its procurement policies and procedures to ensure it receives the best possible value for the monies it spends.

Computer System

The District needs to develop and implement written policies and procedures related to computer system access and program change controls. Auditors noted that the District did not properly limit access to its computer system since one employee prepared the financial statements, had access to subsystems not necessary to fulfill his responsibilities, and could create and modify financial data in subsystems other than the financial statement subsystem.

The District Did Not Always Comply with Federal Program Requirements

The District expended more than \$7.1 million from 15 federal programs during fiscal year 2006. Under the guidelines established by the Office of Management and Budget Circular A-133, auditors tested the Student Financial Assistance (SFA) Cluster, which consisted of the following programs:

- Federal Supplemental Educational Opportunity Grants
- Federal Family Education Loans
- Federal Work-Study Program
- Federal Pell Grant Program

The SFA Cluster had two internal control weaknesses and two instances of noncompliance.

Federal Family Education Loans (FFEL)

The District is required to record loans from federal programs made to students on the Schedule of Expenditures of Federal Awards (SEFA) or in the notes to the SEFA. However, the District did not record approximately \$2.4 million in FFEL for fiscal

year 2006. The District subsequently adjusted its SEFA to include the loans, and the loans were tested as part of the SFA Cluster. The District has been administering the federal loan program for several years and did not previously record the loans on the SEFA.

Federal Supplemental Educational Opportunity Grants (FSEOG)

The District did not have adequate internal control policies and procedures to ensure compliance with the eligibility compliance requirements. FSEOG are to be awarded first to students with the lowest expected family contributions who will also receive Pell grants in the award year and are prohibited from being awarded on a first-come, first-serve basis. However, auditors noted that 20 students with higher expected family contributions received \$11,762 in FSEOG since they applied for financial aid earlier than students with lower expected family contributions, resulting in a questioned cost.

TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling
(602) 553-0333



or by visiting
our Web site at:
www.azauditor.gov

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The Single Audit Fact Sheet

- Two weaknesses in financial reporting internal controls.
- Two weakness in federal compliance internal controls that resulted in noncompliance with federal compliance requirements.
- Program costs of \$11,762 were questioned as a result of our audit.

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Year Ended June 30, 2006