



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

**Pinal County Community
College District**

(Central Arizona College)

Year Ended June 30, 2006



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, 2006

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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Pinal County Community College District

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Pinal County Community College District as of and for the year ended June 30, 2006, 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, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through 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 October 23, 2007, 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

October 23, 2007

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2006

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, 2006. Please read it in conjunction with the District's basic 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 10. 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, 2006. The statement shows the District's assets, liabilities and other obligations, and net assets. Net assets are defined as total assets less total liabilities, and as such, reflects the institutional equity in the District's total assets.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and changes for the year ended June 30, 2006. This statement reports revenues and expenses, categorized as operating and nonoperating, special and extraordinary items, and the changes in net assets for the year.

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2006

The Statement of Cash Flows reflects the cash and cash equivalents inflows and outflows for the year ended June 30, 2006. It shows cash flows from operating activities, financing activities, and investing activities. It also provides for a reconciliation of beginning and ending cash and cash equivalent balances for the year and a reconciliation of the cash flows from operating activities to the operating income (loss) as reported on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Financial Information

The condensed financial information below reflects the results of activity for fiscal year 2006. The financial information for the previous fiscal year 2005 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, 2006</u>	<u>As of June 30, 2005</u>	<u>Percent Change</u>
Assets:			
Current assets	\$19,575,585	\$14,736,220	33%
Noncurrent assets, other than capital assets	4,289,743	5,350,821	-20
Capital assets, net	<u>36,968,993</u>	<u>36,208,394</u>	2
Total assets	<u>60,834,321</u>	<u>56,295,435</u>	8
Liabilities:			
Long-term liabilities	23,000,676	23,662,959	-3
Other liabilities	<u>3,113,286</u>	<u>4,075,156</u>	-24
Total liabilities	<u>26,113,962</u>	<u>27,738,115</u>	-6
Net assets:			
Invested in capital assets, net of related debt	15,834,859	15,466,892	2
Restricted net assets	4,501,715	3,429,250	31
Unrestricted net assets	<u>14,383,785</u>	<u>9,661,178</u>	49
Total net assets	<u>\$34,720,359</u>	<u>\$28,557,320</u>	22

Pinal County Community College District
 (Central Arizona College)
 Management's Discussion and Analysis
 Fiscal Year Ended June 30, 2006

<u>Statement of Revenues, Expenses, and Changes in Net Assets</u>			
	<u>Year Ended June 30, 2006</u>	<u>Year Ended June 30, 2005</u>	<u>Percent Change</u>
Operating revenues	\$ 10,746,397	\$ 11,022,128	-3%
Operating expenses	<u>39,455,951</u>	<u>37,532,122</u>	5
Operating loss	<u>(28,709,554)</u>	<u>(26,509,994)</u>	8
Nonoperating revenues less expenses	<u>33,874,393</u>	<u>28,820,717</u>	18
Income before other revenues, expenses, gains, or losses	5,164,839	2,310,723	124
Other revenues, expenses, gains, or losses	<u>998,200</u>	<u>2,020,315</u>	-51
Increase in net assets	6,163,039	4,331,038	42
Net assets, beginning of year	<u>28,557,320</u>	<u>24,226,282</u>	18
Net assets, end of year	<u>\$ 34,720,359</u>	<u>\$ 28,557,320</u>	22

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2006

<u>Revenues by Source</u>	<u>Year Ended June 30, 2006</u>	<u>Year Ended June 30, 2005</u>	<u>Percent Change</u>
Operating revenues:			
Tuition and fees (net of scholarship allowances)	\$ 3,590,339	\$ 3,354,825	7%
Grants and contracts	5,622,261	6,498,091	-13
Other operating	<u>1,533,797</u>	<u>1,169,212</u>	31
Total operating revenues	<u>10,746,397</u>	<u>11,022,128</u>	-3
Nonoperating revenues:			
Property taxes	26,850,992	23,412,957	15
State appropriations	5,915,800	5,659,200	5
State-shared sales tax	1,579,778	540,630	192
Private gifts	246,529	180,460	37
Investment earnings	<u>402,007</u>	<u>165,054</u>	144
Total nonoperating revenues	<u>34,995,106</u>	<u>29,958,301</u>	17
Capital appropriations	768,200	711,000	8
Capital grants and gifts	<u>230,000</u>	<u>1,309,315</u>	-82
Total revenues	<u>\$46,739,703</u>	<u>\$43,000,744</u>	9

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2006

<u>Expenses by Function</u>	<u>Year Ended June 30, 2006</u>	<u>Year Ended June 30, 2005</u>	<u>Percent Change</u>
Operating expenses:			
Educational and general:			
Instruction	\$15,498,733	\$15,001,289	3%
Public service	174,409	190,798	-9
Academic support	2,592,417	2,418,985	7
Student services	2,868,782	2,877,156	0
Institutional support	8,118,394	7,653,090	6
Operation and maintenance of plant	4,638,152	4,016,392	15
Scholarships	1,495,459	1,811,365	-17
Auxiliary enterprises	1,841,963	1,608,474	15
Depreciation	<u>2,227,642</u>	<u>1,954,573</u>	14
Total operating expenses	<u>39,455,951</u>	<u>37,532,122</u>	5
Nonoperating expenses:			
Interest expense on debt	1,108,833	1,137,584	-3
Other	<u>11,880</u>	<u> </u>	100
Total nonoperating expenses	<u>1,120,713</u>	<u>1,137,584</u>	-1
Total expenses	<u>\$40,576,664</u>	<u>\$38,669,706</u>	5

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 91 percent of the District's total revenues.

During fiscal year 2006, there was an increase in total revenues of \$3.7 million when compared with the prior year. State support revenues increased \$1.4 million because of a one-time additional \$1 million distribution of state-shared sales tax revenues. Property tax revenues increased by \$3.4 million to \$26.9 million because of rising property valuations and population growth within the County. Tuition and fee revenues increased by 7 percent because of a \$3 increase in tuition and a slight increase in enrollment. Capital grants and gifts decreased by \$1.1 million as the result of a one-time capital gift received in fiscal year 2005 for new building construction.

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2006

Total operating expenses rose 5 percent for fiscal year 2006 mainly because of increases in employee salary expense, related benefit expense, and other operational costs.

Increases in property tax revenues and state support revenues were the primary contributors to the \$4.8 million increase in current assets. Noncurrent assets decreased 20 percent due to the decrease in capital gifts of \$1.1 million. Other liabilities decreased 24 percent because of a reduction of accounts payable balances as a result of completion of a major construction project during fiscal year 2006.

In fiscal year 2006, the District's total net assets increased by \$6.2 million, with revenues of \$46.7 million and expenses of \$40.5 million. Overall, the District's financial position continues to improve and remains strong, with adequate resources to meet all current obligations.

Capital Assets and Debt Administration

As of June 30, 2006, the District's capital assets, net of accumulated depreciation, totaled \$36,968,993. During the year, the District completed the construction of a new university center building at Signal Peak Campus. Also during the year, the District entered into a long-term capital lease purchase agreement to upgrade the District's phone system and other telecommunications equipment.

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

Requests for Information

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

Pinal County Community College District
(Central Arizona College)
Statement of Net Assets—Primary Government
June 30, 2006

	<u>Business-Type Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 15,378,423
Receivables:	
Accounts (net of allowance of \$91,086)	2,016,871
Property taxes (net of allowance of \$35,167)	887,364
Government grants and contracts	622,688
Student loans, current portion (net of allowance of \$26,713)	1,971
Other (net of allowance of \$4,262)	48,341
Inventories	<u>619,927</u>
Total current assets	<u>19,575,585</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	2,406,445
Cash and investments held by trustees	1,868,434
Other receivable (net of allowance of \$1,311)	14,864
Capital assets, not being depreciated	2,545,147
Capital assets, being depreciated, net	<u>34,423,846</u>
Total noncurrent assets	<u>41,258,736</u>
Total assets	<u>60,834,321</u>

(Continued)

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Net Assets—Primary Government
June 30, 2006
(Continued)

	<u>Business-Type Activities</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 1,071,412
Accrued payroll and employee benefits	1,016,090
Interest payable	401,732
Deposits held in custody for others	93,052
Insurance claims payable	412,000
Deferred revenues	119,000
Current portion of compensated absences payable	971,616
Current portion of long-term debt	<u>1,445,263</u>
Total current liabilities	<u>5,530,165</u>
Noncurrent liabilities:	
Compensated absences payable	894,926
Long-term debt	<u>19,688,871</u>
Total noncurrent liabilities	<u>20,583,797</u>
Total liabilities	<u>26,113,962</u>
Net Assets	
Invested in capital assets, net of related debt	15,834,859
Restricted:	
Expendable:	
Scholarships	13,836
Grants and contracts	1,179,463
Loans	62,516
Debt service	1,330,002
Capital projects	1,915,898
Unrestricted	<u>14,383,785</u>
Total net assets	<u>\$ 34,720,359</u>

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Financial Position—Component Unit
June 30, 2006

	<u>Central Arizona College Foundation</u>
Assets	
Cash and cash equivalents	\$ 231,296
Investments	<u>3,477,502</u>
Total assets	<u>\$ 3,708,798</u>
Liabilities	
Accounts payable	<u>\$ 36,636</u>
Net Assets	
Temporarily restricted	306,357
Permanently restricted	<u>3,365,805</u>
Total net assets	<u>3,672,162</u>
 Total liabilities and net assets	 <u>\$ 3,708,798</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, 2006

	<u>Business-Type Activities</u>
Operating revenues:	
Tuition and fees (pledged as security for revenue obligations and bonds and net of scholarship allowances of \$2,623,666)	\$ 3,590,339
Government grants and contracts	5,526,378
Private grants and contracts	95,883
Bookstore income (net of scholarship allowances of \$618,120)	757,979
Food service income	33,589
Dormitory rentals and fees (pledged as security for revenue bonds and net of scholarship allowances of \$187,250)	251,896
Other	490,333
Total operating revenues	<u>10,746,397</u>
Operating expenses:	
Educational and general:	
Instruction	15,498,733
Public service	174,409
Academic support	2,592,417
Student services	2,868,782
Institutional support	8,118,394
Operation and maintenance of plant	4,638,152
Scholarships	1,495,459
Auxiliary enterprises	1,841,963
Depreciation	2,227,642
Total operating expenses	<u>39,455,951</u>
Operating loss	<u>(28,709,554)</u>
Nonoperating revenues (expenses):	
Property taxes	26,850,992
State appropriations	5,915,800
Share of state sales taxes	1,579,778
Private gifts	246,529
Investment earnings	402,007
Interest expense on debt	(1,108,833)
Loss on disposal of capital assets	(11,880)
Total nonoperating revenues	<u>33,874,393</u>
Income before other revenues, expenses, gains, or losses	5,164,839
Capital appropriations	768,200
Capital grants and gifts	230,000
Increase in net assets	<u>6,163,039</u>
Total net assets, July 1, 2005	<u>28,557,320</u>
Total net assets, June 30, 2006	<u>\$ 34,720,359</u>

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Activities—Component Unit
Year Ended June 30, 2006

	<u>Central Arizona College Foundation</u>			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains, and other support				
Contributions	\$ 28,415	\$ 14,115	\$ 622,003	\$ 664,533
Contributions—fund-raisers		43,018		43,018
Dividends and interest		132,261		132,261
Net realized and unrealized gains on investments		8,744		8,744
Total revenues, gains, and other support	<u>28,415</u>	<u>198,138</u>	<u>622,003</u>	<u>848,556</u>
Expenses and losses				
Scholarships	112,738			112,738
Fund-raising expenses	53,104			53,104
Office operations expenses	144,010			144,010
Total expenses and losses	<u>309,852</u>			<u>309,852</u>
Net assets released from restrictions	<u>281,437</u>	<u>(271,049)</u>	<u>(10,388)</u>	
Changes in net assets		(72,911)	611,615	538,704
Net assets, July 1, 2005	<u>-</u>	<u>379,268</u>	<u>2,754,190</u>	<u>3,133,458</u>
Net assets, June 30, 2006	<u>\$ -</u>	<u>\$ 306,357</u>	<u>\$ 3,365,805</u>	<u>\$ 3,672,162</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, 2006

	<u>Business-Type Activities</u>
Cash flows from operating activities:	
Tuition and fees	\$ 3,448,181
Grants and contracts	5,736,446
Bookstore receipts	775,864
Food services receipts	33,589
Dormitory rentals and fees	236,232
Collection of loans to students	6,896
Other receipts	307,728
Payments to employees	(25,909,352)
Payments to suppliers and providers of goods and services	(9,878,417)
Payments to students for scholarships	(1,495,459)
Payments to students for loans	(8,131)
Other payments	<u>(846,028)</u>
Net cash used for operating activities	<u>(27,592,451)</u>
Cash flows from noncapital financing activities:	
Property taxes	25,716,950
State appropriations	5,915,800
Share of state sales taxes	1,579,778
Noncapital endowments and gifts	<u>246,529</u>
Net cash provided by noncapital financing activities	<u>33,459,057</u>
Cash flows from capital and related financing activities:	
Property taxes	970,000
Capital appropriations	768,200
Capital grants and gifts	230,000
Principal paid on capital debt	(1,134,630)
Interest paid on capital debt	(1,123,207)
Purchases of capital assets	<u>(2,500,245)</u>
Net cash used for capital and related financing activities	<u>(2,789,882)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	4,305,122
Interest received on investments	402,007
Purchases of investments	<u>(2,192,238)</u>
Net cash provided by investing activities	<u>2,514,891</u>
Net increase in cash and cash equivalents	5,591,615
Cash and cash equivalents, July 1, 2005	<u>12,193,253</u>
Cash and cash equivalents, June 30, 2006	<u>\$ 17,784,868</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, 2006
(Continued)

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (28,709,554)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	2,227,642
Changes in assets and liabilities:	
Increase in:	
Receivables, net	(46,091)
Inventories	(89,423)
Accrued payroll and employee benefits	143,566
Insurance claims payable	78,212
Decrease in:	
Accounts payable	(933,169)
Deposits held in custody for others	(158,105)
Compensated absences payable	(27,529)
Deferred revenues	(78,000)
Net cash used for operating activities	\$ (27,592,451)
Noncash investing, capital, and noncapital financing activities:	
Disposal of capital assets being depreciated	\$ (379,082)
Elimination of accumulated depreciation on disposal of capital assets	367,202
Acquisition of equipment by capital lease	499,876

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2006

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).

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 or on behalf of the District for scholarships and college development activities. Although the District does not control the timing or amount of receipts from the Foundation, the Foundation's restricted resources can only be used by, or for the benefit of, the District or its constituents. Consequently, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

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

During the year ended June 30, 2006, the Foundation distributed \$480,955 to the District for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Central Arizona College Foundation, 8470 North Overfield Road, Coolidge, AZ 85228.

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.

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2006

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

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

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

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

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.

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2006

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

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

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

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

F. Investment Earnings

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

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2006

G. Compensated Absences

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

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

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

H. Scholarship Allowances

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

Note 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) 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, 2006, the carrying amount of the District's deposits was \$1,466,557, and the bank balance was \$2,074,599. The District does not have a policy with respect to custodial credit risk. At June 30, 2006, \$1,959,361 of the District's bank balance was exposed to custodial credit risk as it was uninsured with collateral held by the pledging financial institution.

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2006

Investments—The District’s investments at June 30, 2006, were as follows:

Investment Type	Amount
County Treasurer’s investment pool	\$16,299,256
Mutual funds—U.S. Treasury securities	<u>1,868,434</u>
Total	<u>\$18,167,690</u>

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

Credit risk—The District does not have a formal policy with respect to credit risk. At June 30, 2006, credit risk for the District’s investments was as follows:

Investment Type	Rating	Rating Agency	Amount
County Treasurer’s investment pool	Unrated	Not applicable	\$16,299,256
Mutual funds—U.S. Treasury securities	Aaa	Moody’s	<u>1,868,434</u>
Total			<u>\$18,167,690</u>

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty’s failure, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy with respect to custodial credit risk. At June 30, 2006, the District had \$1,868,434 of mutual funds—U.S. Treasury securities that were uninsured and held by the counterparty not in the District’s name.

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

Interest rate risk—The District does not have a formal policy with respect to interest rate risk. At June 30, 2006, the District had the following investments in debt securities:

Investment Type	Investment Maturities	
	Amount	Less than 1 year
County Treasurer’s investment pool	\$16,299,256	\$16,299,256
Mutual funds—U.S. Treasury securities	<u>1,868,434</u>	<u>1,868,434</u>
Total	<u>\$18,167,690</u>	<u>\$18,167,690</u>

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2006

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	\$ 19,055	Cash and cash equivalents	\$15,378,423
Amount of deposits	1,466,557	Restricted assets:	
Amount of investments	<u>18,167,690</u>	Cash and cash equivalents	2,406,445
		Cash and investments held by trustees	<u>1,868,434</u>
Total	<u>\$19,653,302</u>	Total	<u>\$19,653,302</u>

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 2,545,147			\$ 2,545,147
Construction in progress	<u>4,776,600</u>	\$ 536,347	\$5,312,947	<u> </u>
Total capital assets not being depreciated	<u>7,321,747</u>	<u>536,347</u>	<u>5,312,947</u>	<u>2,545,147</u>
Capital assets being depreciated:				
Buildings	39,148,560	5,603,507		44,752,067
Improvements other than buildings	3,808,815	425,272		4,234,087
Equipment	10,645,639	1,715,422	364,229	11,996,832
Library books	<u>1,385,742</u>	<u>32,520</u>	<u>14,853</u>	<u>1,403,409</u>
Total capital assets being depreciated	<u>54,988,756</u>	<u>7,776,721</u>	<u>379,082</u>	<u>62,386,395</u>
Less accumulated depreciation for:				
Buildings	14,885,494	1,009,881		15,895,375
Improvements other than buildings	1,512,935	254,072		1,767,007
Equipment	8,717,069	881,719	352,349	9,246,439
Library books	<u>986,611</u>	<u>81,970</u>	<u>14,853</u>	<u>1,053,728</u>
Total accumulated depreciation	<u>26,102,109</u>	<u>2,227,642</u>	<u>367,202</u>	<u>27,962,549</u>
Total capital assets being depreciated, net	<u>28,886,647</u>	<u>5,549,079</u>	<u>11,880</u>	<u>34,423,846</u>
Capital assets, net	<u>\$36,208,394</u>	<u>\$6,085,426</u>	<u>\$5,324,827</u>	<u>\$36,968,993</u>

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2006

Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within 1 year
Compensated absences payable	<u>\$ 1,894,071</u>	<u>\$1,042,721</u>	<u>\$1,070,250</u>	<u>\$ 1,866,542</u>	<u>\$ 971,616</u>
Bonds payable:					
Revenue bonds	\$ 9,860,000		\$ 550,000	\$ 9,310,000	\$ 565,000
Deferred amount on refunding	<u>(448,851)</u>		<u>(149,616)</u>	<u>(299,235)</u>	
Total bonds payable	<u>9,411,149</u>		<u>400,384</u>	<u>9,010,765</u>	<u>565,000</u>
Pledged revenue obligations payable	12,825,000		750,000	12,075,000	765,000
Deferred amount on refunding	<u>(467,261)</u>		<u>(155,754)</u>	<u>(311,507)</u>	
Total pledged revenue obligations payable	<u>12,357,739</u>		<u>594,246</u>	<u>11,763,493</u>	<u>765,000</u>
Capital leases payable		<u>\$ 499,876</u>	<u>140,000</u>	<u>359,876</u>	<u>115,263</u>
Total long-term debt	<u>\$21,768,888</u>	<u>\$ 499,876</u>	<u>\$1,134,630</u>	<u>\$21,134,134</u>	<u>\$1,445,263</u>

Bonds—The District's bonded debt consists of revenues bonds that are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. In addition, a portion of the revenue bond proceeds for the series 2004 were used to advance refund a prior higher-rate revenue bond issue. Revenue bonds are repaid from tuition and fees and dormitory rentals and fees. Revenue bonds outstanding at June 30, 2006, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue Bonds—Series 2004	\$10,500,000	7/1/06-18	3.0-4.5%	\$9,310,000

The following schedule details debt service requirements to maturity for the District's bonds payable at June 30, 2006:

Year ending June 30,	Revenue Bonds	
	Principal	Interest
2007	\$ 565,000	\$ 372,681
2008	580,000	355,506
2009	600,000	334,806
2010	620,000	310,406
2011	645,000	284,703
2012-16	3,680,000	971,424
2017-19	<u>2,620,000</u>	<u>167,844</u>
Total	<u>\$9,310,000</u>	<u>\$2,797,370</u>

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2006

In prior years, the District defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the District's financial statements. At June 30, 2006, the following outstanding bonds were considered defeased:

Description	Amount
Revenue Bonds—Series 1998	\$7,090,000

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

Pledged revenue obligation requirements at June 30, 2006, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Pledged Revenue Obligations— Series 2004	\$13,530,000	7/1/06-18	2.5-4.125%	\$12,075,000

The following schedule details debt service requirements to maturity for the District's pledged revenue obligations payable at June 30, 2006:

Year Ending June 30,	Pledged Revenue Obligations	
	Principal	Interest
2007	\$ 765,000	\$ 409,397
2008	790,000	384,638
2009	815,000	361,581
2010	835,000	339,937
2011	855,000	316,675
2012-16	4,730,000	1,125,013
2017-19	3,285,000	204,263
Total	\$12,075,000	\$3,141,504

In prior years, the District defeased certain pledged revenue obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the obligations. Accordingly, the trust account assets and the liability for these defeased obligations are not included in the District's financial statements. At June 30, 2006, the following outstanding obligations were considered defeased:

Description	Amount
Pledged Revenue Obligations—Series 1998	\$7,330,000

Pinal County Community College District
 (Central Arizona College)
 Notes to Financial Statements
 June 30, 2006

Capital lease—The District has acquired a phone system and telecommunications 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 the capital lease are as follows:

Equipment	\$499,876
Less: accumulated depreciation	<u>49,988</u>
Carrying value	<u>\$449,888</u>

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2006:

Year ending June 30	
2007	\$129,730
2008	129,730
2009	<u>129,730</u>
Total minimum lease payments	389,190
Less amount representing interest	<u>29,314</u>
Present value of net minimum lease payments	<u>\$359,876</u>

Note 5 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with seven other Arizona community college districts and more than 200 Arizona school districts in the Arizona School Risk Retention Trust, Inc. (Trust), a public-entity risk pool. The Trust insures the District against liabilities arising from general liability; professional liability; property, automobile, boiler, and machinery; and commercial crime risks. The Trust's operating agreement includes a provision for the member to be charged an additional assessment in the event that total claims paid by the Trust exceed the members' contributions and reserves in any 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 except in the year ended June 30, 2005, when the District was charged an additional assessment for insurance claims liability in the amount of \$29,997.

Pinal County Community College District
 (Central Arizona College)
 Notes to Financial Statements
 June 30, 2006

Insurance claims—The District finances uninsured risks of loss for certain health and eye care benefits to eligible employees and dependents. The healthcare plans provide coverage for claims up to \$70,000 for each individual per year, not to exceed an aggregate stop loss of \$1 million. The District purchases commercial insurance for claims in excess of these limits. The eye care plan offers substantially reduced prices for eye examinations and eyewear. Settled claims have not exceeded the District's coverage for either plan in any of the past 3 fiscal years. An independent administrator provides claim and recordkeeping services for the plans.

The insurance claims payable liability of \$412,000 at June 30, 2006, 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, 2006. Changes in the District's claims payable for the years ended June 30, 2006 and 2005, were as follows:

	2006	2005
Claims payable, beginning of year	\$ 333,788	\$ 162,662
Current year claims and changes in estimates	2,596,791	2,496,045
Claim payments	<u>(2,518,579)</u>	<u>(2,324,919)</u>
Claims payable, end of year	<u>\$ 412,000</u>	<u>\$ 333,788</u>

Note 6 - Operating Leases

During fiscal year 2006, the District entered into several long-term lease agreements classified as operating leases for accounting purposes for classroom and office space. There were no rental expenses under the terms of the operating leases for the year ended June 30, 2006. The operating leases have remaining noncancelable terms from 3 to 5 years and provide for renewal options. The future minimum payments required under the operating leases at June 30, 2006, were as follows:

Year ending June 30		
2007	\$	268,913
2008		282,592
2009		281,047
2010		253,450
2011		<u>260,300</u>
Total minimum lease payments		<u>\$1,346,302</u>

Note 7 - 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.

Pinal County Community College District
 (Central Arizona College)
 Notes to Financial Statements
 June 30, 2006

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 85012-3910 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, 2006, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2006, 2005, and 2004, were \$1,293,317, \$953,861, and \$885,186, respectively, which were equal to the required contributions for the year.

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	\$26,103,601
Contract services	2,942,315
Supplies and other services	4,319,782
Communications and utilities	1,593,728
Scholarships	1,495,459
Depreciation	2,227,642
Other	<u>773,424</u>
Total	<u>\$39,455,951</u>

Note 9 - Subsequent Events

In August 2007, the District entered into a \$5.1 million capital lease agreement to replace old heating, ventilation, and air-conditioning equipment and install energy efficient lighting systems. The term of the agreement is 15 years and it includes interest of 4.35 percent. The first payment will be made in July 2008.

Note 10 - 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.

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2006

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

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

Restricted net assets—Permanently restricted net assets are restricted to:

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

Promise for the Future Program	\$1,069,221
Other restricted scholarship programs	2,129,729
Foundation activities	<u>166,855</u>
Total	<u>\$3,365,805</u>

Temporarily restricted net assets are available for the following purposes:

Foundation activities and scholarships	\$306,357
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Supplementary Information

Pinal County Community College District
(Central Arizona College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development Hispanic-Serving Institutions Assisting Communities	14.514		\$ <u>144,374</u>
U.S. Department of Justice Police Corps, passed through the Arizona Police Officers Standards and Training Board	16.712	None	<u>129,878</u>
National Aeronautics and Space Administration Science, Engineering, Mathematics and Aerospace Academy, passed through Cuyahoga Community College	43.unknown	NAS3-02123-CAC	<u>35,852</u>
U.S. Small Business Administration Small Business Development Center, passed through Maricopa County Community College District	59.037	6-603001-Z-0003-14 5-603001-Z-0003-13	<u>46,839</u>
U.S. Department of Education Adult Education—State Grant Program, passed through the Arizona Department of Education	84.002	06FAEBE-670612-02A	111,750
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		50,687
Federal Family Education Loans	84.032		2,374,847
Federal Work-Study Program	84.033		94,476
Federal Pell Grant Program	84.063		<u>3,246,626</u>
Total Student Financial Assistance Cluster			<u>5,766,636</u>
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	ED03-0030-08	88,520
Higher Education—Institutional Aid	84.031		298,183
TRIO Student Support Services Project	84.042		144,055
Vocational Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	06FCTDBG-670612-05A 05FCTDBG-570612-04A	71,015
Leveraging Educational Assistance Partnership, passed through the Arizona Commission for Postsecondary Education	84.069	None	5,899
Bilingual Education—Professional Development	84.195		161,998

(Continued)

See accompanying notes to schedule.

Pinal County Community College District
(Central Arizona College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Even Start—Migrant Education, passed through the Arizona Department of Education	84.214	06FECMEE-670612-03A 05FECMEE-570612-03A	\$ 116,835
Tech-Prep Education, passed through Pinal County Tech-Prep Consortium	84.243	05FVEDTP-070734-02A 06FVEDTP-070734-02A	11,529
Early Childhood Educator Professional Development, passed through Arizona State University	84.349	S349A030112	<u>44,479</u>
Total U.S. Department of Education			<u>6,820,899</u>
Total Expenditures of Federal Awards			<u>\$ 7,177,842</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, 2006

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 2006 *Catalog of Federal Domestic Assistance*. When there was no CFDA number and no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of
Pinal County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Pinal County Community College District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 23, 2007. 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. 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. However, we noted certain matters involving internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-01 and 06-02.

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. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional 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

October 23, 2007



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of
Pinal County Community College District

Compliance

We have audited the compliance of Pinal County Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Pinal County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying Schedule of Findings and Questioned Costs as items 06-101 and 06-102.

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 a reportable condition. 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 06-101 and 06-102.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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

Debbie Davenport
Auditor General

October 23, 2007

Pinal County Community College District
 (Central Arizona College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified
	Yes	No
Material weaknesses identified in internal control over financial reporting?	___	<u>X</u>
Reportable conditions identified not considered to be material weaknesses?	<u>X</u>	___
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 conditions identified not considered to be material weaknesses?	<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:

CFDA Number

Name of Federal Program or Cluster

	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.032	Federal Family Education Loans
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program

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> ___
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Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Financial Statement Findings

06-01

The District should strengthen internal controls over purchasing

The District spends public monies to purchase goods and services, so it is essential that the District follow procedures designed to help ensure that it receives the best possible value for the public monies it spends and that its expenditures are appropriate, approved, and supported. However, the District's purchasing policies and procedures did not include detailed procedures and guidelines for employees to follow when making competitive purchases. In addition, documentation and approval of competitive purchases was not always retained. Further, there was no evidence of supervisory review and approval of changes to vendors on the District approved vendor listing.

To strengthen controls over purchasing and expenditures, the District's management should revise its current purchasing procedures using the State Procurement Code as a guideline and should ensure the procedures include sufficient detail to identify the responsibilities, duties, and tasks of employees. The District should then make sure that all affected employees are familiar with the policies and procedures and that employees follow the policies. The purchasing procedures should include the following:

- Obtain competitive sealed bids or proposals, as appropriate, for purchases of construction, materials, and services exceeding the competitive sealed bid threshold that the District set. Prepare and retain a bid file that contains a copy of the invitation to bid or an affidavit of publication, bid specifications, bids received from vendors, correspondence, and other documents related to the bidding process. Retain bid files in accordance with the Arizona State Library, Archives and Public Records *Records Retention and Disposition Schedule*.
- Require a minimum number of vendors be contacted for oral and written price quotations and document vendors contacted and their reasons for not providing quotations, if applicable.
- Maintain supporting documentation justifying vendor selection if the vendor with the lowest price quotation is not selected.
- Establish criteria for sole source determinations and require that documentation be prepared prior to acquiring the goods and services that clearly justifies that there are no reasonable alternative sources.
- Prepare a listing of approved vendors and require approval for any changes made to the listing.
- Require that supervisory employees review and approve all purchases.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

06-02

Controls over the District's computer system should be strengthened

The District electronically processes and stores sensitive student, financial, and personnel information on its computer system. As such it is essential for the District's computer system to function properly and to provide safeguards for any confidential or sensitive information. Therefore, it is critical that the District have effective written policies and procedures to provide the basic framework for establishing accountability to ensure that only authorized users have access to read, create, or modify data in the system, which helps reduce the risk of theft, manipulation, or misuse of confidential or sensitive information. Also, they help ensure that changes are appropriately made and tested before being placed into operation. However, the District did not have adequate policies and procedures to control changes to information system programs or control user access for its computer system. Specifically, the District did not adequately limit access to its computer system since one employee with managerial decision-making authority prepared the financial statements, had access to the student financial aid subsystem as well as other subsystems not necessary for his responsibilities, and could create and modify financial data outside of the financial statement subsystem. Additionally, payroll employees could change personnel information within the system and purchasing and accounts payable employees could change the vendor master file without supervisory review or approval.

To help ensure that the District's computer system is operating properly and to safeguard its confidential or sensitive electronic information, the District should develop and implement written policies and procedures for granting, modifying, and deactivating user access, as appropriate, to its computer system and for changes to its programs, including emergency program changes. The District should ensure that its policies and procedures include the following:

Access controls

- Review user access rights at regular intervals and after personnel changes, such as promotion, demotion, transfer, or termination.
- Identify and deactivate access rights of users who have changed jobs or terminated employment immediately.
- Maintain appropriate system access rights for each employee that are compatible with the employee's job responsibilities.
- Require supervisory approval for all requests for system access. Requests should contain all necessary information for assigning the appropriate level of system access.

Routine program change controls

- Authorize, analyze, design, test, document, and approve all changes to information system programs prior to making the changes to the system.
- Require management to authorize program changes.
- Require management and users to review and approve the testing methodology.
- Document all changes completely.
- Have an independent person review, approve, and test all changes.

Emergency program change controls

- Require an appropriate level of management to authorize all emergency changes.
- Document all emergency changes completely.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Federal Award Findings and Questioned Costs

06-101

Student Financial Assistance Cluster

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

84.032 **Federal Family Education Loans**

84.033 **Federal Work-Study Program**

84.063 **Federal Pell Grant Program**

U.S. Department of Education

Award Year: July 1, 2005 through June 30, 2006

Questioned Cost: N/A

The District did not comply with OMB Circular A-133, which requires loans from federal programs made to students at an institution of higher education to be recorded either on the Schedule of Expenditures of Federal Awards (SEFA) or included in the notes to the SEFA. Specifically, the District did not report \$2,374,847 in Federal Family Education Loans awarded during the period July 1, 2005 through June 30, 2006, on its SEFA or in the notes, and as a result the loans were not originally subjected to testwork. The District properly adjusted its SEFA to include these loan amounts, and the loans were subsequently tested as part of the Student Financial Assistance Cluster. Under the Federal Family Education Loans program, the District administers the Federal Stafford Loan and Federal PLUS programs by determining eligibility and disbursing the checks received from the lenders to the students.

Auditors noted that the District has administered this program for several years. The District did not previously report these loans on the SEFA or include them in the notes to the SEFA.

To comply with OMB Circular A-133 §.205(c), the District should report all federal loan expenditures on its SEFA.

06-102

Student Financial Assistance Cluster

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

84.032 **Federal Family Education Loans**

84.033 **Federal Work-Study Program**

84.063 **Federal Pell Grant Program**

U.S. Department of Education

Award Year: July 1, 2005 through June 30, 2006

Questioned Cost: \$11,762

The District did not have adequate internal control policies and procedures to ensure compliance with the eligibility compliance requirements that require Federal Supplemental Educational Opportunity Grants (FSEOG) to be awarded first to students with the lowest expected family contribution that will also receive Pell grants in the award year. In addition, the District is prohibited from awarding FSEOG on a first-come, first-serve basis. However, within the same application period the District awarded FSEOG to students

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

who applied earlier with higher expected family contributions before awarding them to students who applied later with lower expected family contributions. As a result, auditors noted that 20 students with higher expected family contributions received \$11,762 in FSEOG because they applied for financial aid earlier than students with lower expected family contributions.

To comply with Code of Federal Regulations §676.10 and the *Student Financial Aid Handbook*, volume 3, chapter 5, the District should ensure that FSEOG is first awarded to students with the lowest expected family contributions who will also receive Pell grants in that year and not awarded to students on a first-come, first serve basis.



October 23, 2007

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

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding Included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Russell Banta
Vice President of Finance

Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2006

Financial Statement Findings

06-01

The District should strengthen internal controls over purchasing

Russell Banta, Vice President of Finance

Anticipated Completion Date: October, 2007

Corrective Action Plan – Current District purchasing policies and procedures require a written bid or phone quote for purchases between \$5,000 - \$14,999, and a formal written bid for purchases over \$15,000. Further, purchases between \$15,000 and \$19,999 must be approved by the District Chief Financial Officer and purchases over \$20,000 must be approved by the District President.

Purchasing procedures and controls have been strengthened to ensure that purchases are made within the District's guidelines, and that proper documentation supporting the purchases and changes to vendor information is maintained.

06-02

Controls over the District's computer system should be strengthened

Russell Banta, Vice President of Finance

Anticipated Completion Date: October, 2007

Corrective Action Plan - Current procedures have been strengthened to limit access and update capabilities for each user that is compatible with their role and responsibilities. Procedures have been modified to ensure written authorization for any addition, change, and termination of user system access. Procedures have also been modified to prohibit payroll employees from changing personnel information and accounts payable employees from changing vendor master file information. In addition, procedures have been modified so purchasing employees cannot change vendor master file information without supervisory approval.

Federal Award Findings and Questioned Costs

06-101

Student Financial Assistance Cluster

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

Russell Banta, Vice President of Finance

Anticipated Completion Date: July 2006

Corrective Action Plan – Procedures have been modified to report all FFEL federal expenditures on the Schedule of Expenditures of Federal Awards (SEFA) as required by OMB Circular A-133.

06-102

Student Financial Assistance Cluster

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

Russell Banta, Vice President of Finance

Anticipated Completion Date: July 2006

Corrective Action Plan – Procedures have been strengthened to ensure only students with the lowest expected family contributions who also receive Pell Grants will be awarded FSEOG during the award period.



October 23, 2007

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

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings Included in the prior audit's Schedule of Findings and Questioned Costs.

Sincerely,

Russell Banta
Vice President of Finance

Pinal County Community College District
(Central Arizona College)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2006

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

Status: Fully corrected as indicated in the letter of acceptance from the U.S. Department of Education

05 – 101

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants

84.033 Federal Work-Study Program

84.063 Federal Pell Grant Program

U.S. Department of Education

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

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

Status: Fully corrected