A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Pinal County Community College District

(Central Arizona College)

Year Ended June 30, 2008

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, 2008

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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, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Pinal County Community College District as of June 30, 2008, 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.

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions;* 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues;* and 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*, for the year ended June 30, 2008, which represents changes in accounting principles.

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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 28, 2009, 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 28, 2009

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2008

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, 2008. 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 Governmental 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 No. 39, the District has one component unit, the Central Arizona College Foundation, Inc. (Foundation). The Foundation is audited separately from the District, and its financial activity is presented in conjunction with the District's financial statements.

Information on the component unit can be found in the report in the component unit's Statement of Financial Position and Statement of Activities, as well as Note 11. Management's Discussion and Analysis focuses only on the District and does not address the component unit.

The Statement of Net Assets reflects the financial position of the District at June 30, 2008. The statement shows the District's assets, liabilities, and net assets. Net assets are defined as total assets less total liabilities, and as such, reflects the institutional equity in the District's total assets.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and changes for the fiscal year ended June 30, 2008. This statement reports revenues and expenses, categorized as operating and nonoperating, special and extraordinary items, and the changes in net assets for the year.

The Statement of Cash Flows reflects the cash and cash equivalent inflows and outflows for the year ended June 30, 2008. It shows cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It also provides for a reconciliation of beginning and ending cash and cash equivalent balances for the year and a reconciliation of the cash flows from operating activities to the operating loss as reported on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Financial Information

The condensed financial information below reflects the results of activity for fiscal year 2008. The financial information for the previous fiscal year 2007 is also presented as a reference point to illustrate trends for determining whether the institution's financial health is improving or deteriorating.

Net Assets

	As of June 30, 2008	*As of June 30, 2007*	*Percent Change*
Assets:			
Current assets	$35,469,945	$26,956,586	32%
Noncurrent assets, other than capital assets	12,895,798	7,545,763	71
Capital assets, net	40,287,947	35,912,431	12
Total assets	88,653,690	70,414,780	26
Liabilities:			
Long-term liabilities	25,900,655	21,887,361	18
Other liabilities	6,254,350	3,276,664	91
Total liabilities	32,155,005	25,164,025	28
Net assets:			
Invested in capital assets, net of related debt	16,202,720	15,918,189	2
Restricted net assets	8,372,183	6,975,613	20
Unrestricted net assets	31,923,782	22,356,953	43
Total net assets	$56,498,685	$45,250,755	25

Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30, 2008	*Year Ended June 30, 2007*	*Percent Change*
Operating revenues	$ 5,825,785	$ 7,291,006	-20%
Operating expenses	44,221,543	44,756,531	-1
Operating loss	(38,395,758)	(37,465,525)	2
Nonoperating revenues less expenses	48,696,088	43,910,665	11
Income before other revenues, expenses, gains, or losses	10,300,330	6,445,140	60
Other revenues, expenses, gains, or losses	947,600	4,085,256	-77
Increase in net assets	11,247,930	10,530,396	7
Net assets, beginning of year	45,250,755	34,720,359	30
Net assets, end of year	$ 56,498,685	$ 45,250,755	25

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2008

Revenues by Source

	Year Ended June 30, 2008	Year Ended June 30, 2007	Percent Change
Operating revenues:			
Tuition and fees (net of scholarship allowances)	$ 4,902,355	$ 5,155,768	-5%
Other operating	923,430	2,135,238	-57
Total operating revenues	5,825,785	7,291,006	-20
Nonoperating revenues:			
Property taxes	34,802,386	31,218,546	11
State appropriations	6,052,000	6,014,700	1
Grants and contracts	6,655,478	5,462,378	22
Private gifts	406,248	354,653	15
State-shared sales tax	650,602	927,330	-30
Investment income	1,389,266	1,015,942	37
Total nonoperating revenues	49,955,980	44,993,549	11
Capital appropriations	797,600	3,789,800	-79
Capital grants and gifts	150,000	295,456	-49
Total revenues	$56,729,365	$56,369,811	1

Expenses by Function

	Year Ended June 30, 2008	Year Ended June 30, 2007	Percent Change
Operating expenses:			
Educational and general:			
Instruction	$17,291,369	$16,371,021	6%
Public service	271,389	378,081	-28
Academic support	2,553,716	2,522,649	1
Student services	3,244,400	3,064,131	6
Institutional support	10,314,464	10,832,515	-5
Operation and maintenance of plant	4,693,010	4,625,293	1
Scholarships	2,419,062	1,988,632	22
Auxiliary enterprises	541,849	2,411,970	-78
Depreciation	2,892,284	2,562,239	13
Total operating expenses	44,221,543	44,756,531	-1
Nonoperating expenses:			
Interest expense on debt	1,126,981	1,080,531	4
Other	132,911	2,353	5549
Total nonoperating expenses	1,259,892	1,082,884	16
Total expenses	$45,481,435	$45,839,415	-1

Financial Highlights and Analysis

The District's primary mission is to provide educational services to the residents of Pinal County through three campuses and six 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 District's total revenues.

During fiscal year 2008, there was an increase in total revenues of $0.4 million when compared with the prior year. Other operating revenues decreased by $1.2 million because of a decline in bookstore revenues as a result of outsourcing the bookstore operations for fiscal year 2008. Property tax revenues increased by $3.6 million to $34.8 million because of rising property valuations and population growth within the County. State-shared sales tax revenues decreased by 30 percent because of a reduction in sales tax proceeds from the State. Grants and contract revenues increased by 22 percent because of an increase in federal funding for programs for Pell grant by $366,000, Title V by $398,000, and Community Based Job Training by $520,000. Investment income increased by 37 percent because of a significant increase in cash and investment earnings in the District's pooled County Treasurer account. Capital appropriations decreased by $3 million because of a one-time additional capital appropriation issued in fiscal year 2007. Capital grants and gifts decreased by $145,000 because of a one-time funding received in fiscal year 2007 for construction projects.

Total expenses for the year 2008 decreased slightly as compared with the prior year. Public service expenditures decreased by 28 percent primarily because of a decrease in public service event expenditures during the year. Scholarship expenses increased 22 percent mainly because of an increase in Pell grant expenditures. Auxiliary enterprise expenses decreased by 78 percent because of a decline in bookstore expenditures as a result of outsourcing the bookstore operations for fiscal year 2008. Depreciation expense increased by 13 percent because of additional capital purchases made during the year that are being depreciated. Other expenses increased significantly because of an increase in the loss recorded on disposal of plant equipment.

Increases in property tax revenues are the primary contributor to the $18.2 million increase in total assets. In addition, assets and liabilities also increased because of a capital lease purchase entered into during the fiscal year for $5.2 million. In fiscal year 2008, the District's total net assets increased by $11.2 million, with revenues of $56.7 million and expenses of $45.5 million. Unrestricted net assets increased by $9.6 million mainly because of excess revenues over expenditures in the general operating fund. Restricted net assets increased by $1.4 million mainly because of a $1.3 million increase in capital projects. 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, 2008, the District's capital assets, net of accumulated depreciation, totaled $40,287,947, an increase of $4.4 million from the prior year. Capital assets include land, equipment, buildings, improvements other than buildings, and library books. Additional information on capital assets can be found in Note 3 to the District's financial statements.

During the fiscal year the District's long-term debt increased by $4.1 million. In fiscal year 2008, the District entered into a $5.3 million capital lease to purchase energy saving equipment throughout the District. The District also retired $1.2 million in long-term debt during the year. Additional information on the District's long term debt is discussed in Note 4 to the District's financial statements.

Current Factors having Probable Future Financial Significance

In November 2008 the District received voter approval to issue and sell up to $98,975,000 in general obligation bonds. Proceeds from the bonds will be used to acquire land, construct and renovate buildings and infrastructure, and to purchase furnishings and equipment. The District issued $40 million of the amount authorized in July 2009. The general bond issue has been rated A1 by Moody's Investment Services and AA- by Standard & Poor's.

Requests for Information

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

Financial Statements

Pinal County Community College District
(Central Arizona College)
Statement of Net Assets—Primary Government
June 30, 2008

	Business-Type Activities
Assets	
Current assets:	
Cash and cash equivalents	$ 30,495,917
Receivables:	
Accounts (net of allowance of $92,608)	2,360,403
Property taxes (net of allowance of $64,411)	1,550,616
Government grants and contracts	1,039,732
Student loans (net of allowance of $26,567)	981
Other (net of allowance of $783)	22,296
Total current assets	35,469,945
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	9,570,012
Cash and investments held by trustees	3,317,080
Other receivables (net of allowance of $306)	8,706
Capital assets, not being depreciated	2,545,147
Capital assets, being depreciated, net	37,742,800
Total noncurrent assets	53,183,745
Total assets	88,653,690
Liabilities	
Current liabilities:	
Accounts payable	$ 3,833,862
Accrued payroll and employee benefits	1,243,782
Interest payable	451,980
Deposits held in custody for others	182,726
Insurance claims payable	542,000
Current portion of compensated absences payable	1,113,968
Current portion of long-term debt	1,884,498
Total current liabilities	9,252,816
Noncurrent liabilities:	
Compensated absences payable	701,460
Long-term debt	22,200,729
Total noncurrent liabilities	22,902,189
Total liabilities	32,155,005

(Continued)

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Net Assets—Primary Government
June 30, 2008
(Continued)

	Business-Type Activities
Net Assets	
Invested in capital assets, net of related debt	$ 16,202,720
Restricted:	
Expendable:	
Grants and contracts	282,039
Loans	66,457
Debt service	1,415,001
Capital projects	6,608,686
Unrestricted	31,923,782
Total net assets	$ 56,498,685

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Financial Position—Component Unit
June 30, 2008

	Central Arizona College Foundation
Assets	
Cash and cash equivalents	$ 205,281
Investments	3,659,089
Total assets	$ 3,864,370
Liabilities	
Accounts payable	$ 172,909
Net Assets	
Temporarily restricted	295,922
Permanently restricted	3,395,539
Total net assets	3,691,461
Total liabilities and net assets	$ 3,864,370

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, 2008

	Business-Type Activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of $2,324,268)	$ 4,902,355
Food service income	6,537
Dormitory rentals and fees (net of scholarship allowances of $171,143)	303,302
Other	613,591
Total operating revenues	5,825,785
Operating expenses:	
Educational and general:	
Instruction	17,291,369
Public service	271,389
Academic support	2,553,716
Student services	3,244,400
Institutional support	10,314,464
Operation and maintenance of plant	4,693,010
Scholarships	2,419,062
Auxiliary enterprises	541,849
Depreciation	2,892,284
Total operating expenses	44,221,543
Operating loss	(38,395,758)
Nonoperating revenues (expenses):	
Property taxes	34,802,386
State appropriations	6,052,000
Government grants and contracts	6,655,478
Private grants and gifts	406,248
Share of state sales taxes	650,602
Investment income	1,389,266
Interest expense on debt	(1,126,981)
Loss on disposal of assets	(132,911)
Net nonoperating revenues	48,696,088
Income before other revenues, expenses, gains, or losses	10,300,330
Capital appropriations	797,600
Capital grants and gifts	150,000
Increase in net assets	11,247,930
Total net assets, July 1, 2007	45,250,755
Total net assets, June 30, 2008	$ 56,498,685

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Activities—Component Unit
Year Ended June 30, 2008

	Central Arizona College Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Contributions		$ 47,198	$ 193,124	$ 240,322
Contributions—fund-raisers		4,546		4,546
Dividends and interest		217,281		217,281
Total revenues, gains, and other support		269,025	193,124	462,149
Expenses and losses				
Scholarships	$ 179,745			179,745
Office operations expenses	181,764			181,764
Net realized and unrealized loss on investments	443,605			443,605
Total expenses and losses	805,114			805,114
Net assets released from restrictions				
Transfers	805,114	(602,943)	(202,171)	
Changes in net assets		(333,918)	(9,047)	(342,965)
Net assets, July 1, 2007		629,840	3,404,586	4,034,426
Net assets, June 30, 2008	$ -	$ 295,922	$ 3,395,539	$ 3,691,461

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2008

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	$ 5,340,006
Food services receipts	6,537
Dormitory rentals and fees	300,637
Collection of loans to students	14,841
Other receipts	711,869
Payments to employees	(28,035,065)
Payments to suppliers and providers of goods and services	(9,626,156)
Payments to students for scholarships	(2,419,062)
Payments to students for loans	(14,432)
Other payments	(727,468)
Net cash used for operating activities	(34,448,293)
Cash flows from noncapital financing activities:	
Property taxes	34,465,666
State appropriations	6,052,000
Share of state sales taxes	650,602
Grants and contracts	6,665,561
Private grants and gifts	406,248
Federal Family Education Loans student loan receipts	3,132,377
Federal Family Education Loans student loan disbursements	(3,132,377)
Increase in deposits held for others	95,408
Net cash provided by noncapital financing activities	48,335,485
Cash flows from capital and related financing activities:	
Capital appropriations	797,600
Capital grants and gifts	150,000
Proceeds from capital leases	5,088,032
Principal paid on capital debt	(1,489,897)
Interest paid on capital debt	(676,114)
Purchases of capital assets	(5,030,687)
Net cash used for capital and related financing activities	(1,161,066)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	5,729,758
Interest received on investments	1,389,266
Purchases of investments	(7,296,487)
Net cash used for investing activities	(177,463)
Net increase in cash and cash equivalents	12,548,663
Cash and cash equivalents, July 1, 2007	27,517,266
Cash and cash equivalents, June 30, 2008	$ 40,065,929

(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, 2008
(Continued)

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (38,395,758)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	2,892,284
Changes in assets and liabilities:	
Increase in:	
Accounts payable	285,114
Accrued payroll and employee benefits	203,123
Insurance claims payable	66,000
Decrease in:	
Accounts and Other receivables	501,456
Compensated absences payable	(77,691)
Inventories	76,770
Student loans receivable	409
Net cash used for operating activities	$ (34,448,293)
Significant noncash investing, capital, and noncapital financing activities:	
Disposal of capital assets being depreciated	$ (230,475)
Elimination of accumulated depreciation on disposal of capital assets	97,564
Deferred amount on refunding recorded as interest expense	305,371
Interest accrued for capital leases	187,479

See accompanying notes to financial statements.

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).

For the year ended June 30, 2008, the District implemented the provisions of GASB Statement Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*; 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*; and 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27*). GASB Statement No. 45 establishes governmental employer accounting and financial reporting requirements for postemployment benefits other than pensions. GASB Statement No. 48 establishes note disclosure requirements for governments that pledge future revenues as security for its debt. GASB Statement No. 50 amends GASB Statement Nos. 25 and 27 to require governmental employers to present certain additional pension disclosure in the notes.

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, 2008, the Foundation distributed $170,734 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.

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

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

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

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

Internal transactions and activities, such as transfers between funds, revenues and expenses recorded for internal service activities, and certain internal revenues and expenses recorded for grant activity, have been eliminated for financial statement purposes.

The District follows FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The District has chosen the option not to follow FASB statements and interpretations issued after November 30, 1989.

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. 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

E. Investment Earnings

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

F. 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 who have 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. Those amounts are accrued as a liability in the financial statements.

G. Scholarship Allowances

A scholarship allowance is the difference between the stated charge for goods and services 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, 2008, the carrying amount of the District’s deposits was $2,999,014, and the bank balance was $2,856,089. The District does not have a policy with respect to custodial credit risk. At June 30, 2008, $2,727,353 of the District’s bank balance was exposed to custodial credit risk as it was uninsured with collateral held by the pledging financial institution.

Investments—The District's investments at June 30, 2008, were as follows:

Investment Type	Amount
County Treasurer's investment pool	$37,037,670
Mutual funds—U.S. Treasury securities	3,317,080
Total	$40,354,750

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

Credit risk—The District does not have a formal policy with respect to credit risk. At June 30, 2008, credit risk for the District's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
County Treasurer's investment pool	Unrated	Not applicable	$37,037,670
Mutual funds—U.S. Treasury securities	Aaa	Moody's	3,317,080
Total			$40,354,750

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, 2008, the District had $3,317,080 of mutual funds in 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 for interest rate risk. At June 30, 2008, the District had the following investments in debt securities:

	Investment Maturities	
Investment Type	Amount	Less than 1 year
County Treasurer's investment pool	$37,037,670	$37,037,670
Mutual funds—U.S. Treasury securities	3,317,080	3,317,080
Total	$40,354,750	$40,354,750

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	$ 29,245	Cash and cash equivalents	$30,495,917
Amount of deposits	2,999,014	Restricted assets:	
Amount of investments	40,354,750	Cash and cash equivalents	9,570,012
		Cash and investments held by trustees	3,317,080
Total	$43,383,009	Total	$43,383,009

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets not being depreciated:				
Land	$ 2,545,147			$ 2,545,147
Construction in progress	68,365		$ 68,365	
Total capital assets not being depreciated	2,613,512		68,365	2,545,147
Capital assets being depreciated:				
Buildings	44,696,363	$1,251,169	132,911	45,814,621
Improvements other than buildings	4,288,677	3,087,229		7,375,906
Equipment	13,132,549	3,056,836	97,564	16,091,821
Library books	1,467,263	73,842		1,541,105
Total capital assets being depreciated	63,584,852	7,469,076	230,475	70,823,453
Less accumulated depreciation for:				
Buildings	17,070,134	1,190,464		18,260,598
Improvements other than buildings	2,023,350	357,884		2,381,234
Equipment	10,059,676	1,273,879	97,564	11,235,991
Library books	1,132,773	70,057		1,202,830
Total accumulated depreciation	30,285,933	2,892,284	97,564	33,080,653
Total capital assets being depreciated, net	33,298,919	4,576,792	132,911	37,742,800
Capital assets, net	$35,912,431	$4,576,792	$201,276	$40,287,947

Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within 1 year
Compensated absences payable	$ 1,893,119	$1,213,020	$1,290,711	$ 1,815,428	$1,113,968
Bonds payable:					
Revenue bonds	$ 8,745,000		$ 580,000	$ 8,165,000	$ 600,000
Deferred amount on refunding	(149,618)		(149,618)		
Total bonds payable	8,595,382		430,382	8,165,000	600,000
Pledged revenue obligations payable	11,310,000		790,000	10,520,000	815,000
Deferred amount on refunding	(155,753)		(155,753)		
Total pledged revenue obligations payable	11,154,247		634,247	10,520,000	815,000
Capital leases payable	244,613	5,275,511	119,897	5,400,227	469,498
Total long-term debt	$19,994,242	$5,275,511	$1,184,526	$24,085,227	$1,884,498

Bonds—The District's bonded debt consists of revenue 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 bonds proceeds for the Series 2004 were used to advance refund a prior higher-rate revenue bond issue. Revenue bonds are secured by tuition and fees and dormitory rental fees. Revenue bonds outstanding at June 30, 2008, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue Bonds—Series 2004	$10,500,000	7/1/08-18	4.0-4.5%	$8,165,000

The following schedule details debt service requirements to maturity for the District's bonds payable at June 30, 2008:

	Revenue Bonds	
	Principal	Interest
Year ending June 30,		
2009	$ 600,000	$ 334,806
2010	620,000	310,406
2011	645,000	284,703
2012	675,000	257,478
2013	705,000	228,134
2014-18	4,010,000	634,318
2019	910,000	19,338
Total	$8,165,000	$2,069,183

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, 2008, the following outstanding bonds were considered defeased:

Description	Amount
Revenue Bonds—Series 1998	$6,260,000

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

Pledged revenue obligations outstanding at June 30, 2008, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Pledged Revenue Obligations—Series 2004	$13,530,000	7/1/08-18	2.5-4.125%	$10,520,000

The following schedule details debt service requirements to maturity for the District's pledged revenue obligations payable at June 30, 2008:

	Pledged Revenue Obligations	
	Principal	Interest
Year Ending June 30,		
2009	$ 815,000	$ 361,581
2010	835,000	339,937
2011	855,000	316,675
2012	880,000	290,650
2013	910,000	262,663
2014-18	5,085,000	752,450
2019	1,140,000	23,513
Total	$10,520,000	$2,347,469

In prior years, the District defeased certain pledged revenue obligations by placing the proceeds of new obligatings 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, 2008, the following outstanding obligations were considered defeased:

Description	Amount
Pledged Revenue Obligations—Series 1998	$5,490,000

Capital leases—The District has acquired telecommunications equipment and energy savings equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through the capital leases are as follows:

Phone system and telecommunications equipment	$ 499,876
Energy savings equipment	5,275,511
Less: accumulated depreciation	573,032
Carrying value	$5,202,355

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2008:

Year ending June 30	
2009	$ 603,641
2010	474,984
2011	471,948
2012	468,933
2013	469,810
2014-18	2,363,843
2019-23	2,392,957
Total minimum lease payments	7,246,114
Less amount representing interest	1,845,887
Present value of net minimum lease payments	$5,400,227

Note 5 - Pledges of Future Revenues

The District has pledged, as security for its revenue bonds and pledged revenue obligations, a portion of the District's tuition and fees and dormitory rentals and fees revenue. In 2004, the District issued revenue bonds and pledged revenue obligations in the amount of $10,500,000 and $13,530,000, respectively. The debt was issued to provide financing for various capital projects and to refinance outstanding revenue bonds and pledged revenue obligations of the District. The revenue bonds and pledged revenue obligations are payable through fiscal year 2019. The District has committed to designate each year, from the tuition and fee revenue, amounts sufficient to cover the principal and interest requirements on the District's debt. The total principal and interest remaining on the debt is $23,101,652 with annual requirements ranging from $2,111,387 in fiscal year 2009 to $2,092,851 in fiscal year 2019. Tuition and fee revenue, from which the designations will be made, has averaged approximately $4,006,842 over the prior 5 fiscal years. For the current year, principal and interest paid by the District and the total tuition and fees and dormitory rentals and fees revenue recognized by the District were $2,110,144 and $5,205,657, respectively.

Note 6 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with seven other Arizona community college districts and more than 200 Arizona school districts in the Arizona School Risk Retention Trust, Inc. (Trust), a public-entity risk pool. The Trust insures the District against liabilities arising from general liability; professional liability; and property, automobile, boiler, and machinery; 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 coverage in any of the past 3 fiscal years.

Insurance claims—The District finances uninsured risks of loss for certain healthcare and eye care benefits to eligible employees and dependents. The healthcare plans provide coverage for claims up to $80,000 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 $542,000 at June 30, 2008, 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, 2008. Changes in the District's claims payable for the years ended June 30, 2008 and 2007, were as follows:

	2008	2007
Claims payable, beginning of year	$ 476,000	$ 412,000
Current year claims and changes in estimates	2,954,800	2,545,716
Claim payments	(2,888,800)	(2,481,716)
Claims payable, end of year	$ 542,000	$ 476,000

Note 7 - Operating Leases

The District leases classroom and office space under provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases were $569,087 for the year ended June 30, 2008. The operating leases have remaining noncancelable terms of 1 to 5 years and provide renewal options. The future minimum payments required under the operating leases at June 30, 2008, were as follows:

Year ending June 30	
2009	$ 533,491
2010	540,507
2011	497,257
2012	212,579
2013	105,877
Total minimum lease payments	$1,889,711

Note 8 - Pension and Other Postemployment Benefits

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

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or 1-800-621-3778.

Funding policy—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2008, active plan members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent long-term disability) of the members' annual covered payroll.

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

Year ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2008	$1,495,102	$195,043	$90,928
2007	1,359,360	189,063	90,306
2006	1,008,374	197,526	87,417

Note 9 - Operating Expenses

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

Personal services	$28,226,497
Contract services	3,538,907
Supplies and other services	4,487,681
Communications and utilities	1,961,452
Scholarships	2,419,062
Depreciation	2,892,284
Other	695,660
Total	$44,221,543

Note 10 - Subsequent Events

On July 1, 2009, the District issued General Obligation Bonds, Project of 2008, Series 2009A, in the amount of $40 million, with an interest rate ranging from 4.00% to 5.25% and maturing on July 1, 2034. The net proceeds from the bonds will be used to acquire land, construct and renovate buildings and infrastructure, and purchase furnishings and equipment. These bonds were issued at a premium of $561,398. These bonds were the first issuance of a $98,975,000 bond authorization, approved by the voters in November 2008.

Note 11 - Central Arizona College Foundation

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

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

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

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	$1,208,697
Other restricted scholarship programs	2,029,895
Foundation activities	156,947
Total	$3,395,539

Temporarily restricted net assets are available for the following purposes:

Foundation activities and scholarships	$295,922

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, 2008

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		$ 227,749
U.S. Department of Labor			
Community Based Job Training Grants	17.269		587,268
U.S. Small Business Administration			
Small Business Development Centers, passed through Maricopa County Community College District	59.037	7-603001-Z-0003-13 8-603001-Z-0003-16	20,847
U.S. Department of Education			
Adult Education—Basic Grants to States, passed through the Arizona Department of Education	84.002	08FAEABE-870612-04A 08FAECIV-870612-02A	221,340
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		48,862
Federal Family Education Loans	84.032		3,127,854
Federal Work-Study Program	84.033		82,006
Federal Pell Grant Program	84.063		3,080,720
Academic Competitiveness Grants	84.375		29,940
Total Student Financial Assistance Cluster			6,369,382
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	ED03-0030-08 ED08-0014-08	122,957
Higher Education—Institutional Aid	84.031		776,852
TRIO—Student Support Services	84.042		241,694
Career and Technical Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	07FCTDBG-770612-03A 08FCTDBG-870612-01A	82,405
Leveraging Educational Assistance Partnership, passed through the Arizona Commission for Postsecondary Education	84.069	None	14,538

(Continued)

See accompanying notes to schedule.

Pinal County Community College District
(Central Arizona College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Rehabilitation Services—Vocational Rehabilitation Grants to States, passed through the Arizona Department of Economic Security	84.126	E5345516	$ 45,894
Bilingual Education—Professional Development	84.195		2,537
Tech-Prep Education, passed through Pinal County Tech-Prep Consortium	84.243	07FCTDTP-770734-01A 08FCTDTP-870734-01A	14,782
Total U.S. Department of Education			7,892,381
Total Expenditures of Federal Awards			$ 8,728,245

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, 2008

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 2008 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

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

Program Title	CFDA Number	Amount
Higher Education—Institutional Aid	84.031	$130,121

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, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 28, 2009. Our report was modified to include a reference to our reliance on other auditors and as to consistency because of the implementation of Governmental Accounting Standards Board Statement No(s). 45, 48, and 50. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Central Arizona College Foundation Inc., the discretely presented component unit, as described in our report on the District's financial statements. The financial statements of the Central Arizona College Foundation Inc. were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that is reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's basic financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider items 08-01 through 08-07 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-02 and 08-04 to be material weaknesses.

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*.

Pinal County Community College District's responses to the findings identified in our audit are presented on pages 40 through 43. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, 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 28, 2009

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, 2008. 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, 2008. 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 item 08-101.

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider items 08-101 through 08-102 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We do not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Pinal County Community College District's responses to the findings identified in our audit are presented on page 43. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, 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 28, 2009

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
	Yes	No
Material weaknesses identified in internal control over financial reporting?	X	
Significant deficiencies identified not considered to be material weaknesses?	X	
Noncompliance material to the financial statements noted?		X

Federal Awards

Material weaknesses identified in internal control over major programs?		X
Significant deficiencies identified not considered to be material weaknesses?	X	
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])?	X	

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
17.269	Community Based Job Training Grants
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.032	Federal Family Education Loans
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grants
84.031	Higher Education—Institutional Aid

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

Other Matters

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

Financial Statement Findings

08-01
The District should update and test its disaster recovery plan

Criteria: The District uses computerized information systems to process and store financial and student information that is vital to its daily operations. Therefore, it is critical that the District have an up-to-date contingency plan in place to provide continued operations and to ensure that electronic data files are not lost because of a system or equipment failure or other interruption. In addition, backup files maintaining sensitive data should be encrypted.

Condition and context: Auditors reviewed the District's disaster recovery plan and noted that although the District updated its disaster recovery plan in February 2008, the plan did not address the following areas:

- A risk analysis identifying and prioritizing critical applications and exposures and an assessment of the impact to the District.
- A listing of personnel that would be responsible to carry out the plan.
- Arrangements with vendors to support hardware and software requirements.
- Detailed procedures for processing critical applications.

In addition, the District's disaster recovery plan was maintained on the system and was not stored at an off-site location. Also, the District tested the updated disaster recovery plan; however, the results of this test were not documented. Further, auditors reviewed the District's procedures for backing up data and noted that the District did not perform the following:

- Back up data on the Visual Source Safe (VSS) server, which contains the source code data for the capital assets system, the disaster recovery plan, and other sensitive IT data.
- Encrypt backup files that include sensitive or confidential data.

Effect: The District could experience the potential loss of the continuity of its operations in the event of a system or equipment failure or other interruption. Also, the District could lose valuable data if the VSS server was corrupted. Further, if the District physically lost any of their backup files, sensitive data could potentially be compromised. We consider this finding to be a significant deficiency.

Cause: The District updated its disaster recovery plan but did not review it against industry best practice standards to ensure it contained all required components that typically should be included in a disaster recovery plan. In addition, data on the VSS server was not backed up because of an oversight by the District.

Recommendation: To help ensure the continuity of District operations in the event of a system or equipment failure or other interruption, the District should:

- Perform a risk analysis identifying and prioritizing critical applications to determine what should be recovered first.
- Distribute a copy of the disaster recovery plan to all involved personnel.
- Maintain a copy of the disaster recovery plan off-site.
- Make arrangements with vendors to support hardware and software requirements.
- Detail procedures for processing critical applications.
- Document the periodic testing of the plan and update the plan for any problems noted.
- Back-up the VSS server.
- Encrypt backup files sent off-site.

A similar finding was noted in the previous fiscal year.

08-02
The District should strengthen access controls to its computer systems

Criteria: System access controls help ensure that only authorized users have access to the District's computer systems and sensitive data. These controls are critical in preventing or detecting unauthorized use, damage, loss, or modification of programs and data, and misuse of sensitive information. System access controls restrict not only physical access to the District's systems, but also logical access to those systems. Access to the District's computer systems should be limited to only those employees authorized to process transactions or maintain a particular system.

Condition and context: While performing test work over access controls, auditors noted the District did not retain documentation to support users' access rights granted prior to July 1, 2007. Further, for 12 of 15 employees selected for test work, the District was unable to provide documentation authorizing the employee's access rights and approval by a supervisor. In addition, the District did not adequately monitor one employee with super user access rights who had access to both the general ledger and capital assets systems. This employee was responsible for creating and updating the capital assets system. Further, during fiscal year 2008, the District's database administrator's (DBA) responsibilities were performed by a consulting service located out of state, typically during hours when district employees were not available to the DBA to answer questions or correct issues. The DBA was granted full access to the District's system to perform assigned responsibilities. However, the District did not monitor the DBA's activities within the system.

Effect: There is a risk of theft, manipulation, or misuse of confidential or sensitive data by unauthorized users or by users not being properly monitored. We consider this finding to be a material weakness.

Cause: The District did not have written policies and procedures in place to maintain the approval of employee access rights prior to July 1, 2007. In addition, the District did not implement procedures to monitor the DBA and employees with super user access for unauthorized activities.

Recommendation: Documentation of access rights granted to employees should be maintained to indicate access has been reviewed and approved by a supervisor, to help ensure that incompatible or inappropriate rights are not assigned, and to help prevent fraudulent activities from being initiated without detection. Also, a comprehensive review of all existing system users should be conducted to ensure that employees have access rights compatible with their current job responsibilities. Further, to help ensure the integrity of the District's computer system, the District should develop policies and procedures that require the DBA and other users' activities to be independently tracked and reviewed for propriety.

A similar finding was noted in the previous fiscal year.

08-03
The District should strengthen internal controls over purchasing

Criteria: The District's purchasing policies and procedures should be sufficiently detailed to identify the responsibilities and tasks of employees who are responsible for making purchases. Also, in accordance with the District's policies and procedures for all construction contracts over $35,000, the vendor should be selected through the competitive bid process in which formal sealed written bids are obtained from qualified vendors. In addition, the bid award should be approved by the President and submitted as an information item to the Governing Board.

Condition and context: Auditors reviewed the District's purchasing policies and noted that the procedures did not include detailed guidelines for employees to follow when making purchases.

In addition, while performing test work, auditors noted that the District did not follow procurement procedures for a construction remodeling project exceeding $35,000. Formal sealed bids were not obtained and the transaction was not formally reviewed or approved in writing by the President or submitted to the Governing Board as an information item.

Effect: Incomplete purchasing policies and procedures could result in a possible inefficient use of public monies and employee improprieties over purchasing. We consider this finding to be a significant deficiency.

Cause: The District believed its policies and procedures were adequate. Also, the District originally thought that the construction remodeling project would be less than $35,000, and therefore, it did not follow procedures for sealed competitive bidding.

Recommendation: The District should update its purchasing policies and procedures to include sufficient detail to identify the responsibilities and tasks of employees with purchasing responsibilities. Specifically, the District's purchasing policies and procedures should include the following:

- Require a minimum number of vendors to be contacted for oral or written price quotations, and document vendors contacted and reasons for not providing quotations, if applicable.

- Maintain supporting documentation justifying vendor selection when 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 the sole source determination.
- Prepare a listing of approved vendors to be supplied to district departments and require approval for any changes made to the listing.
- Require that supervisory employees review and approve all purchases.

Also, to comply with current purchasing policies and procedures, the District must ensure that all construction purchases over $35,000 be with a formal written bid, and approved by the President, and submitted to the Governing Board as an information item to help ensure the District obtained the best price or quality.

A similar finding was noted in the previous fiscal year.

08-04
The District should monitor its service provider for its employee health plans

Criteria: The District hired an outside consulting firm to help assist in establishing health insurance premium rates and paying medical claims to its third-party administrators for its employee health plans. These claim payments were made from the District's bank account. In addition, the outside consulting firm is a signer on the employee benefits bank account. Bank accounts to which outside parties can make withdrawals should be adequately safeguarded and financial resources should be limited only to meet the current month's activities. Accordingly, the District should monitor its employee health plans bank account and prepare monthly reconciliations to protect the District's monies.

Condition and context: The District relies on the consulting firm to reconcile its employee benefits bank account on a monthly basis and provide financial reports of claims paid. During fiscal year 2008, the District did not adequately monitor the outside consulting firm. Specifically, auditors noted that the District did not prepare or review monthly bank reconciliations for the employee benefits trust account nor limit monies in the account to only cover the current month's expenses. At June 30, 2008, auditors noted that the employee benefits bank account had a balance of $926,866, which is approximately $600,000 higher than the District's monthly medical and dental expenses.

Effect: There is a potential for fraud, waste, and abuse. We consider this finding to be a material weakness.

Cause: The District deposited monies into the employee benefits bank account based on the insurance premium rates withheld for eligible employees instead of the actual cash required to meet monthly expenditures. In addition, the District overlooked reconciling the account on a monthly basis or reviewing the monthly reconciliation performed by the consulting firm.

Recommendation: The District should monitor financial activity performed on its behalf by its outside consultant by preparing the monthly bank reconciliations for its employee benefits bank trust account. The employee preparing the bank reconciliation should also review the check register to ensure that only authorized payments were made from the account. All unusual withdrawals or other transactions posted to the account should be investigated. In addition, the District should minimize the account balance to cover only the current month's expenses.

A similar finding was noted in the previous fiscal year.

08-05
The District should strengthen controls over credit cards

Criteria: The District's credit card policy and procedures require employees to submit credit card receipts and purchase documentation to the business office monthly. Also, credit card billings should be paid in full monthly to avoid interest charges.

Condition and context: Auditors reviewed the District's listing of credit cards and noted that the District issued credit cards to approximately 65 of 361 full-time employees to pay for goods, services, and travel expenditures. Credit card limits ranged from $2,500 to $15,000 a month with a total monthly limit for all cards of $267,500. The District did not adequately ensure that all credit card receipts and documentation were received from employees in a timely manner. Specifically, auditors reviewed one account's transactions over a 3-month period and determined that the business office had not received all documentation supporting credit card charges, and therefore, the statement balances were not paid in full and the District incurred interest charges on the unpaid balances. Further, auditors determined that this was a pervasive problem that occurred throughout the fiscal year. It was not practical for auditors to determine the total amount of interest the District paid during the fiscal year as the interest was not separately identified in the accounting records. However, auditors determined that the District had cash available to pay the cards' full balances each month.

Effect: Noncompliance with the District's purchasing policies and procedures could result in a misuse of public monies. We consider this finding to be a significant deficiency.

Cause: The District chose not to pay the credit card statement until documentation was received by the business office.

Recommendation: The District should enforce its written policies and procedures over credit card purchases by requiring employees to submit credit cards receipts and supporting purchase documentation to the business office monthly. Also, the District should take corrective action, such as canceling or suspending the cardholder's credit card privileges, when the cardholder does not follow the District's policy. Further, the District should pay credit card bills promptly to avoid interest charges.

A similar finding was noted in the previous fiscal year.

08-06
The District should strengthen internal controls over capital assets

Criteria: The District has invested a significant amount of money in its capital assets. Therefore, the District needs to have the necessary controls to properly safeguard and account for this significant group of assets.

Condition and context: The District did not adequately separate responsibilities over capital assets. Specifically, auditors noted that, the director of purchasing services was responsible for overseeing the periodic physical inventory of capital assets, had the ability to make changes to the capital assets listing, and had the ability to initiate and approve his own department’s capital asset purchases under $5,000. Auditors estimate that the director of purchasing services potentially initiated and approved purchases of approximately $66,400 in capital assets during the fiscal year.

Effect: Lack of internal controls over capital assets may result in the potential for the misstatement of capital assets balances and possible theft. We consider this finding to be a significant deficiency.

Cause: The District improperly assigned employee responsibilities over capital assets.

Recommendation: The District should have an employee independent of capital assets recordkeeping and purchasing responsibilities plan and supervise the physical inventory. Also, an independent employee should review and approve all capital asset purchases of the purchasing department.

A similar finding was noted in the previous fiscal year.

08-07
The District should complete accurate financial statements in a timely manner

Criteria: The District should issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws and regulations, grant contracts, and long-term debt agreements. Further, the Office of Management and Budget (OMB) requires the Single Audit Reporting Package to be submitted to the U.S. Clearinghouse within 9 months after the end of the audit period.

Condition and context: Auditors performed test work on the District’s financial statements to determine if the amounts presented were materially correct. While performing audit work, auditors determined that the District did not include all amounts and required information in its financial statements and notes to financial statements. Specifically, auditors noted that the District did not properly record $1.5 million of cash held by trustee on the Statement of Net Assets, classify net assets correctly, or accurately record cash in-flows and out-flows on the Statement of Cash Flows, mostly due to the misrecording of a capital lease agreement entered into during the fiscal year. Also, the District did not compile and report all required information in the notes to financial statements for the new Governmental Accounting Standards Board disclosure requirements. Auditors requested that the District adjust its 2008 financial statements and notes for the errors noted; however, the District was not timely in correcting these errors, which resulted in the District issuing its financial statements over 6 months late.

Effect: The District could misstate its financial statements. In addition, noncompliance with OMB reporting requirements may cause the District to lose federal funding. We consider this finding to be a significant deficiency.

Cause: The District did not adequately document the process and timelines for compiling annual financial statements and supporting schedules.

Recommendation: To help ensure the District's financial statements are accurate and issued in a timely manner in accordance with OMB requirements, the District should:

- Establish a process to assign employees and determine completion dates for compiling the information and preparing financial statements and supporting schedules.
- Establish a process for obtaining information not readily available from the accounting system necessary for financial statement preparation.
- Have an employee who did not prepare the financial statements review them to help ensure that the amounts are accurate and properly supported.

A similar finding was noted in the previous fiscal year.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Federal Award Findings and Questioned Costs

08-101
CFDA No.: 17.269 Community Based Job Training Grants
U.S. Department of Labor
Award Year: January 1, 2007 through December 31, 2009
Award Number: CB-15960-07-60-A

Student Financial Aid Cluster:
CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants
84.032 Federal Family Education Loans
84.033 Federal Work-Study Program
84.063 Federal Pell Grant Program
84.375 Academic Competitiveness Grants
U.S. Department of Education
Award Year: July 1, 2007 through June 30, 2008

CFDA No. 84.031 Higher Education—Institutional Aid
U.S. Department of Education
Award Year: October 1, 2005 through September 30, 2010
Award Number: P031S050056

Cash Management

Questioned Cost: None

Criteria: In accordance with 29 Code of Federal Regulations (CFR) §95.21 (b)(3) and 34 §CFR 74.21 (b)(3), effective controls and accountability must be maintained over federal monies. Therefore, the District should properly separate cash management responsibilities so that no one single employee is responsible for compiling, approving, and submitting cash drawdown of federal funds forms without supervisory review. Also, OMB Circular A-133 Compliance Supplement (3)(C)(1) states that when entities are funded on a reimbursement basis, program costs must be paid for with entity funds before reimbursement is requested from the federal government.

Condition and context: The District did not have adequate internal controls to ensure that requests for reimbursement were accurate and approved prior to submission. While gaining our understanding over the cash management internal controls, auditors determined that, for all major programs, one employee was responsible for compiling, approving, and submitting the requests without supervisory review. Because of this control deficiency not all cash management requests were submitted accurately. Specifically, the following errors were noted by auditors:

- For the Community-Based Job Training Grant, the District requested additional funding over what had been spent for 2 of 12 drawdowns selected for test work. Specifically, in July 2007, the District requested and received $10,226 in excess federal monies but did not discover the error until May 2008. Also, the District incorrectly requested and received $39,151 in excess federal monies in June 2008 and did not discover the error until later that month. Once discovered, the District immediately sent back the excess monies to the U.S. Department of Labor.

- For the Student Financial Aid (SFA) Cluster, the District incorrectly double counted a prior-year accrual in the amount of $27,992 in its request for federal funding for 1 of 15 drawdowns tested for the Pell grant program. Also, the District did not record $8,914 in revenues received in the general ledger for another drawdown until 9 months later. The District did eventually detect and correct these errors.

In addition, for the SFA Cluster, the District did not reconcile the SFA disbursement subsystem to the finance subsystem. Auditors performed additional test work and determined that there were no questioned costs related to each federal program.

Effect: Inadequate internal controls and noncompliance with the cash management requirements for the Community Based Job Training Grant, SFA Cluster, and Higher Education—Institutional Aid programs may lead to over-requesting federal funding. We consider this finding to be a significant deficiency in internal control over compliance and noncompliance over the cash management requirements for each major program tested. This finding has the potential to affect other federal programs that the District administers.

Cause: The District did not realize that the responsibilities of compiling, approving, and submitting cash drawdown requests should have been separated and the requests should have been reviewed by a supervisor to help prevent errors.

Recommendation: To help ensure cash management requirements are met, the District should assign a second employee to review reimbursement requests for accuracy before they are submitted to the grantor. Further, for the SFA Cluster, a second employee should reconcile the disbursement subsystem to the financial subsystem to help ensure reimbursement requests are based on actual disbursements.

A similar finding was noted in the previous fiscal year.

08-102
CFDA No.: 17.269 Community Based Job Training Grants
U.S. Department of Labor
Award Year: January 1, 2007 through December 31, 2009
Award Number: CB-15960-07-60-A

84.031 Higher Education—Institutional Aid
U.S. Department of Education
Award Year: October 1, 2005 through September 30, 2010
Award Number: P031S050056

Procurement, Suspension, and Debarment

Question Cost: N/A

Criteria: In accordance with 29 CFR §95.13 and 34 CFR §74.13, effective controls must be maintained to ensure that transactions are not entered into with vendors that have been suspended or debarred from doing business with the federal government.

Condition and context: The District did not establish internal controls policies and procedures to ensure that it obtained the required suspension and debarment certifications from its vendors or that contract award documentation was retained. Specifically, for all four vendors tested who were paid over $25,000 in federal funds, auditors were unable to determine that the District performed procedures to ensure the contracted vendors were not suspended or debarred. However, auditors performed additional audit procedures and noted no instances of payments made to suspended or debarred individuals or organizations.

Effect: Inadequate internal controls and noncompliance with the procurement, suspension, and debarment compliance requirement for the Community-Based Job Training Grant and Higher Education—Institutional Aid programs may result in awards to vendors that were suspended or debarred from doing business with the federal government. Doing business with debarred vendors is unallowable, and the District would not be able to request reimbursement for these expenditures. We consider this finding to be a significant deficiency in internal control over compliance with these programs' procurement, suspension, and debarment compliance requirements. This finding also has the potential to affect other federal programs the District administers.

Cause: The District overlooked this requirement in its policies and procedures.

Recommendation: To help ensure compliance with the procurement, suspension, and debarment compliance requirement, the District should amend its procurement policies and procedures to address suspension and debarment requirements. Further, the District should document its determination that vendors being paid over $25,000 in federal monies have not been suspended or debarred from doing business with governmental entities. This verification may be accomplished by checking the Excluded Parties List maintained by the U.S. General Services Administration, obtaining a certification from the vendor or subrecipient, or adding a clause or condition to the contract with that entity.

A similar finding was noted in the previous fiscal year.

Central Arizona College

October 27, 2009

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 and Administration

Central Arizona College
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Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2008

Financial Statement Findings

08-01
The District should update and test its disaster recovery plan.

Russell Banta, Vice President of Finance and Administration
Anticipated Completion Date: October, 2009

Corrective Action Plan – The District has strengthened procedures and its disaster recovery plan to ensure that critical applications and accounting personnel are identified to process critical transactions, detailed procedures for processing critical transactions are identified, and that critical data and systems are properly backed up and encrypted. In addition, procedures have been modified to document disaster recovery plan test results and a hard copy of the plan is stored at an offsite location.

08-02
The District should strengthen access controls

Russell Banta, Vice President of Finance and Administration
Anticipated Completion Date: October, 2009

Corrective Action Plan – The District has reviewed, verified, and documented system access for all employees to ensure that system rights are properly assigned in accordance with the employees' job responsibilities. In addition, procedures have been strengthened to monitor system activity for those granted super user access.

08-03
The District should strengthen internal controls over purchasing.

Russell Banta, Vice President of Finance and Administration
Completion Date: January, 2009

Corrective Action Plan – Purchasing procedures and controls were reviewed and have been strengthened to ensure that purchases are made within the District's guidelines, that proper documentation supporting the purchases is maintained and employees with purchasing responsibilities are familiar and comply with revised procedures.

Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2008

08-04
The District should monitor its service provider for its employee health plans.

Russell Banta, Vice President of Finance and Administration
Completion Date: April, 2009

Corrective Action Plan – The District has strengthened procedures to monitor financial activity performed on the District's behalf by the employee benefit trust consultants. Procedures have been modified to include a review of financial reports for claims paid for the district, a monthly bank account reconciliation and a review for excess funds in the bank account.

08-05
The District should strengthen controls over credit cards.

Russell Banta, Vice President of Finance and Administration
Completion Date: September, 2009

Corrective Action Plan – The District has strengthened procedures and processes to ensure that purchasing card and credit card bank account balances are paid in full in a timely manner, supporting documentation for the purchase is received from the employee in a timely manner, and that corrective action is taken when the procedures are not adhered to.

08-06
The District should strengthen internal controls over capital assets.

Russell Banta, Vice President of Finance and Administration
Anticipated Completion Date: October, 2009

Corrective Action Plan – The District has segregated duties over capital assets so that those responsible for overseeing the periodic physical inventory do not have the ability to make changes in the capital assets system. Further, requisition approvals have been modified to require additional approval for all purchases initiated by the Director of Purchasing.

Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2008

08-07
The District should complete accurate financial statements and to issue its statements timely.

Russell Banta, Vice President of Finance and Administration
Anticipated Completion Date: October, 2009

Corrective Action Plan – The District has strengthened procedures and processes to ensure that financial statements and supporting schedules are properly completed and reviewed in a timely manner.

Federal Award Findings and Questioned Costs

08-101
CFPD No.: 17.269 Community based Job Training Grants

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

Status – Procedures were strengthened as of April 2009 to ensure that drawdown requests are properly reviewed and approved and the financial aid subsystem and the general ledger subsystem reconcile.

08-102
CFDA No.: 17.269 Community Based Job Training Grants
CFDA No.: 84.031 Higher Education - Institutional Aid

Status – The District procurement procedures were strengthened as of April 2009 to address Federal requirements and the documentation of suspension and debarment.

Central Arizona College

September 17, 2009

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 and Administration

Central Arizona College
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Pinal County Community College District
(Central Arizona College)
Schedule of Prior Year Audit Findings
Year Ended June 30, 2008

Federal Award Findings and Questioned Costs

07-101
Student Financial Assistance Cluster
CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants
84.032 Federal Family Education Loans
84.033 Federal Work-Study Program
84.063 Federal Pell Grant Program
84.375 Academic Competitiveness Grants
CFDA No.: 84.031 Higher Education_Institutional Aid

Status – Procedures were strengthened in April, 2009 to ensure that drawdown requests are properly reviewed and approved and the financial aid subsystem and the general ledger subsystem reconcile.

07-102
CFDA No.: 84.031 Higher Education - Institutional Aid

Status – The District procurement procedures were strengthened in April, 2009 to address Federal requirements and the documentation of suspension and debarment. The District policies and procedures are being enforced to ensure the proper approvals are obtained and documented.