



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Pinal County Community College District

(Central Arizona College)

Year Ended June 30, 2007



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, 2007

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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, 2007, 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, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 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

February 27, 2009

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

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, 2007. Please read it in conjunction with the District's financial statements, which immediately follow.

Basic Financial Statements

The District's annual financial statements are presented in accordance with the Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. These statements allow for the presentation in a consolidated, single-column, entity-wide format. This format is similar to the type of financial statements typical of a business enterprise. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the District reports as a component unit those organizations that raise and hold economic resources for the direct benefit of the District. Based on GASB No. 39, the District has one component unit, the Central Arizona College Foundation, Inc. (Foundation). The Foundation is audited separately from the District, and its financial activity is presented in conjunction with the District's financial statements.

Information on the component unit can be found in the report in the component unit's Statement of Financial Position and Statement of Activities, as well as Note 10. Management's Discussion and Analysis focuses only on the District and does not address the component unit.

The Statement of Net Assets reflects the financial position of the District at June 30, 2007. 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 year ended June 30, 2007. 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, 2007. It shows cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It also provides for a reconciliation of beginning and ending cash and cash equivalent balances for the year and a reconciliation of the cash flows from operating activities to the operating loss as reported on the Statement of Revenues, Expenses, and Changes in Net Assets.

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

Condensed Financial Information

The condensed financial information below reflects the results of activity for fiscal year 2007. The financial information for the previous fiscal year 2006 is also presented as a reference point to illustrate trends for determining whether the institution's financial health is improving or deteriorating.

<u>Net Assets</u>	<u>As of June 30, 2007</u>	<u>As of June 30, 2006</u>	<u>Percent Change</u>
Assets:			
Current assets	\$26,956,586	\$19,575,585	38%
Noncurrent assets, other than capital assets	7,545,763	4,289,743	76
Capital assets, net	<u>35,912,431</u>	<u>36,968,993</u>	-3
Total assets	<u>70,414,780</u>	<u>60,834,321</u>	16
Liabilities:			
Long-term liabilities	21,887,361	23,000,676	-5
Other liabilities	<u>3,276,664</u>	<u>3,113,286</u>	5
Total liabilities	<u>25,164,025</u>	<u>26,113,962</u>	-4
Net assets:			
Invested in capital assets, net of related debt	15,918,189	15,834,859	1
Restricted net assets	6,975,613	4,501,715	55
Unrestricted net assets	<u>22,356,953</u>	<u>14,383,785</u>	55
Total net assets	<u>\$45,250,755</u>	<u>\$34,720,359</u>	30

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

Revenues, Expenses, and Changes in Net Assets

	<u>Year Ended June 30, 2007</u>	<u>Year Ended June 30, 2006 as Reclassified*</u>	<u>Percent Change</u>
Operating revenues	\$ 7,291,006	\$ 5,124,136	42%
Operating expenses	<u>44,756,531</u>	<u>39,455,951</u>	13
Operating loss	<u>(37,465,525)</u>	<u>(34,331,815)</u>	(9)
Nonoperating revenues less expenses	<u>43,910,665</u>	<u>39,496,654</u>	11
Income before other revenues, expenses, gains, or losses	6,445,140	5,164,839	25
Other revenues, expenses, gains, or losses	<u>4,085,256</u>	<u>998,200</u>	309
Increase in net assets	10,530,396	6,163,039	71
Net assets, beginning of year	<u>34,720,359</u>	<u>28,557,320</u>	22
Net assets, end of year	<u>\$ 45,250,755</u>	<u>\$ 34,720,359</u>	30

*The fiscal year 2006 amounts have been reclassified for comparison with fiscal year 2007; see explanation on page v.

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

<u>Revenues by Source</u>	<u>Year Ended June 30, 2007</u>	<u>Year Ended June 30, 2006 as Reclassified*</u>	<u>Percent Change</u>
Operating revenues:			
Tuition and fees (net of scholarship allowances)	\$ 5,155,768	\$ 3,590,339	44%
Other operating	<u>2,135,238</u>	<u>1,533,797</u>	39
Total operating revenues	<u>7,291,006</u>	<u>5,124,136</u>	43
Nonoperating revenues:			
Property taxes	31,218,546	26,850,992	16
State appropriations	6,014,700	5,915,800	2
State-shared sales tax	927,330	1,579,778	-41
Grants and contracts	5,462,378	5,622,261	-3
Private gifts	354,653	246,529	44
Investment income	<u>1,015,942</u>	<u>402,007</u>	153
Total nonoperating revenues	<u>44,993,549</u>	<u>40,617,367</u>	11
Capital appropriations	3,789,800	768,200	393
Capital grants and gifts	<u>295,456</u>	<u>230,000</u>	28
Total revenues	<u>\$56,369,811</u>	<u>\$46,739,703</u>	21
*The fiscal year 2006 amounts have been reclassified for comparison with fiscal year 2007; see explanation on page v.			

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

<u>Expenses by Function</u>	<u>Year Ended June 30, 2007</u>	<u>Year Ended June 30, 2006</u>	<u>Percent Change</u>
Operating expenses:			
Educational and general:			
Instruction	\$16,371,021	\$15,498,733	6%
Public service	378,081	174,409	117
Academic support	2,522,649	2,592,417	-3
Student services	3,064,131	2,868,782	7
Institutional support	10,832,515	8,118,394	33
Operation and maintenance of plant	4,625,293	4,638,152	0
Scholarships	1,988,632	1,495,459	33
Auxiliary enterprises	2,411,970	1,841,963	31
Depreciation	<u>2,562,239</u>	<u>2,227,642</u>	15
Total operating expenses	<u>44,756,531</u>	<u>39,455,951</u>	13
Nonoperating expenses:			
Interest expense on debt	1,080,531	1,108,833	-3
Other	<u>2,353</u>	<u>11,880</u>	-80
Total nonoperating expenses	<u>1,082,884</u>	<u>1,120,713</u>	-3
Total expenses	<u>\$45,839,415</u>	<u>\$40,576,664</u>	13

Financial Highlights and Analysis

The District's primary mission is to provide educational services to the residents of Pinal County through three campuses and three 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 92 percent of the District's total revenues. The District has reclassified federal student financial aid and other grant revenues as nonoperating beginning in fiscal year 2007 because of additional guidance provided by GASB. The amounts presented within this analysis for 2006 have been reclassified for comparison purposes.

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

During fiscal year 2007, there was an increase in total revenues of \$9.6 million when compared with the prior year. State support revenues increased \$2.5 million because of a one-time additional capital appropriation of \$3 million and a \$0.7 million decrease in state-shared sales tax revenues. Property tax revenues increased by \$4.4 million to \$31.2 million because of rising property valuations and population growth within the County. Tuition and fee revenues increased by \$1.6 million because of a \$3 increase in tuition per credit hour, a slight increase in enrollment, and a \$0.7 million decrease in the scholarship allowance allocated to tuition and fees. Investment earnings increased by 153 percent because of a significant increase in cash and investment earnings in the District's pooled County Treasurer account. Other operating revenues increased by 39 percent because of an increase in bookstore sales revenue of \$484,797 in fiscal year 2007.

Total operating expenses rose 13 percent for fiscal year 2007 mainly because of increases in employee salary expense, related benefit expense, and other operational costs. Public service expenditures increased by \$203,672, primarily because of the increase in public service events and expenditures during the year. Institutional support expenditures increased by \$2.7 million primarily because of salary and benefit expense and a \$1.5 million increase in expenses for leased property renovations and rent payments. Scholarship expenses increased by \$493,173 because of a decrease in the scholarship allowance calculation. Auxiliary enterprise expenses increased by 31 percent primarily because of an increase in expense for cafeteria operations and college bookstore.

Increases in property tax revenues and state support revenues were the primary contributors to the \$9.6 million increase in total assets. In fiscal year 2007, the District's total net assets increased by \$10.5 million, with revenues of \$56.3 million and expenses of \$45.8 million. As a result, unrestricted net assets increased by \$8 million due mainly to a \$4.4 million increase in tax levy revenue and \$1.5 million increase in tuition and fee revenue. Restricted net assets increased by \$2.5 million due to a \$3.3 million increase in capital projects and a \$0.9 million decrease in governmental grants and contracts. 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, 2007, the District's capital assets, net of accumulated depreciation, totaled \$35,912,431.

Moody's Investment Service has upgraded the revenue bond and pledged revenue obligation debt rating of the District from Baa1 to A3.

Requests for Information

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

Pinal County Community College District
(Central Arizona College)
Statement of Net Assets—Primary Government
June 30, 2007

	<u>Business-Type Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 21,732,625
Receivables:	
Accounts (net of allowance of \$120,946)	2,857,275
Property taxes (net of allowance of \$45,752)	1,213,896
Government grants and contracts	1,049,815
Student loans (net of allowance of \$26,603)	1,390
Other (net of allowance of \$2,265)	24,815
Inventories	<u>76,770</u>
Total current assets	<u>26,956,586</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	5,784,641
Cash and investments held by trustees	1,750,351
Other receivables (net of allowance of \$983)	10,771
Capital assets, not being depreciated	2,613,512
Capital assets, being depreciated, net	<u>33,298,919</u>
Total noncurrent assets	<u>43,458,194</u>
Total assets	<u>70,414,780</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 1,292,340
Accrued payroll and employee benefits	1,040,659
Interest payable	380,347
Deposits held in custody for others	87,318
Insurance claims payable	476,000
Current portion of compensated absences payable	1,171,530
Current portion of long-term debt	<u>1,489,897</u>
Total current liabilities	<u>5,938,091</u>
Noncurrent liabilities:	
Compensated absences payable	721,589
Long-term debt	<u>18,504,345</u>
Total noncurrent liabilities	<u>19,225,934</u>
Total liabilities	<u>25,164,025</u>

(Continued)

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Net Assets—Primary Government
June 30, 2007
(Continued)

	<u>Business-Type Activities</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 15,918,189
Restricted:	
Expendable:	
Scholarships	
Grants and contracts	267,810
Loans	62,687
Debt service	1,370,003
Capital projects	5,275,113
Unrestricted	<u>22,356,953</u>
 Total net assets	 <u>\$ 45,250,755</u>

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Financial Position—Component Unit
June 30, 2007

	<u>Central Arizona College Foundation</u>
Assets	
Cash and cash equivalents	\$ 239,894
Investments	<u>4,035,016</u>
Total assets	<u>\$ 4,274,910</u>
Liabilities	
Accounts payable	<u>\$ 240,484</u>
Net Assets	
Temporarily restricted	629,840
Permanently restricted	<u>3,404,586</u>
Total net assets	<u>4,034,426</u>
 Total liabilities and net assets	 <u>\$ 4,274,910</u>

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Revenues, Expenses, and Changes in Net Assets—Primary Government
Year Ended June 30, 2007

	<u>Business-Type Activities</u>
Operating revenues:	
Tuition and fees (pledged as security for revenue obligations and bonds and net of scholarship allowances of \$1,875,595)	\$ 5,155,768
Bookstore income (net of scholarship allowances of \$439,044)	1,242,776
Food service income	37,406
Dormitory rentals and fees (pledged as security of revenue obligations and bonds and net of scholarship allowances of \$115,519)	261,196
Other	<u>593,860</u>
Total operating revenues	<u>7,291,006</u>
Operating expenses:	
Educational and general:	
Instruction	16,371,021
Public service	378,081
Academic support	2,522,649
Student services	3,064,131
Institutional support	10,832,515
Operation and maintenance of plant	4,625,293
Scholarships	1,988,632
Auxiliary enterprises	2,411,970
Depreciation	<u>2,562,239</u>
Total operating expenses	<u>44,756,531</u>
Operating loss	<u>(37,465,525)</u>
Nonoperating revenues (expenses):	
Property taxes	31,218,546
State appropriations	6,014,700
Government grants and contracts	5,422,319
Private grants and contracts	40,059
Share of state sales taxes	927,330
Private gifts	354,653
Investment income	1,015,942
Interest expense on debt	(1,080,531)
Loss on disposal of assets	<u>(2,353)</u>
Net nonoperating revenues	<u>43,910,665</u>
Income before other revenues, expenses, gains, or losses	6,445,140
Capital appropriations	3,789,800
Capital grants and gifts	<u>295,456</u>
Increase in net assets	10,530,396
Total net assets, July 1, 2006	<u>34,720,359</u>
Total net assets, June 30, 2007	<u>\$ 45,250,755</u>

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Activities—Component Unit
Year Ended June 30, 2007

	Central Arizona College Foundation			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains, and other support				
Contributions		\$ 88,807	\$ 38,781	\$ 127,588
Contributions—fund-raisers		15,728		15,728
Dividends and interest		121,310		121,310
Net realized and unrealized gains on investments		476,654		476,654
Total revenues, gains, and other support		702,499	38,781	741,280
Expenses and losses				
Scholarships	151,604			151,604
Fund-raising expenses	8,145			8,145
Office operations expenses	<u>219,267</u>			<u>219,267</u>
Total expenses and losses	<u>379,016</u>			<u>379,016</u>
Net assets released from restrictions	<u>379,016</u>	<u>(379,016)</u>		
Changes in net assets		323,483	38,781	362,264
Net assets, July 1, 2006	<u>-</u>	<u>306,357</u>	<u>3,365,805</u>	<u>3,672,162</u>
Net assets, June 30, 2007	<u>\$ -</u>	<u>\$ 629,840</u>	<u>\$ 3,404,586</u>	<u>\$ 4,034,426</u>

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2007

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	\$ 4,193,455
Bookstore receipts	1,359,054
Food services receipts	37,406
Dormitory rentals and fees	266,827
Collection of loans to students	11,021
Other receipts	531,917
Payments to employees	(27,096,936)
Payments to suppliers and providers of goods and services	(11,496,188)
Payments to students for scholarships	(1,988,633)
Payments to students for loans	(10,440)
Other payments	(762,742)
Net cash used for operating activities	(34,955,259)
Cash flows from noncapital financing activities:	
Property taxes	30,892,014
State appropriations	6,014,700
Share of state sales taxes	927,330
Grants and contracts	5,035,251
Noncapital endowments and gifts	354,653
FFEL student loan receipts	2,171,982
FFEL student loan disbursements	(2,171,982)
Decrease in deposits held for others	(5,734)
Net cash provided by noncapital financing activities	43,218,214
Cash flows from capital and related financing activities:	
Capital appropriations	3,789,800
Capital grants and gifts	289,456
Principal paid on capital debt	(1,445,263)
Interest paid on capital debt	(796,545)
Purchases of capital assets	(1,502,030)
Net cash used for capital and related financing activities	335,418
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	2,254,412
Interest received on investments	1,015,940
Purchases of investments	(2,136,327)
Net cash provided by investing activities	1,134,025
Net increase in cash and cash equivalents	9,732,398
Cash and cash equivalents, July 1, 2006	17,784,868
Cash and cash equivalents, June 30, 2007	\$ 27,517,266

(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, 2007
(Continued)

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (37,465,525)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	2,562,239
Changes in assets and liabilities:	
Increase in:	
Receivables, net	(812,785)
Accounts payables	220,928
Accrued liabilities	24,569
Compensated absences payable	26,577
Insurance claims payable	64,000
Decrease in:	
Student loans receivable	581
Inventories	543,157
Deferred revenues	(119,000)
Net cash used for operating activities	\$ (34,955,259)
Noncash investing, capital, and noncapital financing activities:	
Disposal of capital assets being depreciated	\$ (241,208)
Elimination of accumulated depreciation on disposal of capital assets	238,855
Donation of capital assets	6,000

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2007

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

During the year ended June 30, 2007, the Foundation distributed \$174,930 to the District for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Central Arizona College Foundation, 8470 North Overfield Road, Coolidge, AZ 85228.

B. Basis of Presentation and Accounting

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

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2007

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

A statement of revenues, expenses, and changes in net assets provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Operating revenues and expenses generally result from exchange transactions. Accordingly, revenues such as tuition, and bookstore, food service, and dormitory charges are considered to be operating revenues. Other revenues, such as property taxes, educational grants, and state appropriations, 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.

Pinal County Community College District
 (Central Arizona College)
 Notes to Financial Statements
 June 30, 2007

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

C. Cash and Investments

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

D. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

E. Capital Assets

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

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

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

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

F. Investment Earnings

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

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2007

G. Compensated Absences

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

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

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

H. Scholarship Allowances

A scholarship allowance is the difference between the stated charge for goods and services provided by the District and the amount that is paid by the student or third parties making payments on behalf of the student. Accordingly, some types of student financial aid, such as Pell grants and scholarships awarded by the District, are considered to be scholarship allowances. These allowances are netted against tuition and fees, bookstore income, and dormitory rental and fees revenue 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, 2007, the carrying amount of the District's deposits was \$2,728,571, and the bank balance was \$3,416,949. The District does not have a policy with respect to custodial credit risk. At June 30, 2007, \$3,299,906 of the District's bank balance was exposed to custodial credit risk as it was uninsured with collateral held by the pledging financial institution.

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2007

Investments—The District’s investments at June 30, 2007, were as follows:

Investment Type	Amount
County Treasurer’s investment pool	\$24,741,475
Mutual funds—U.S. Treasury securities	<u>1,750,350</u>
Total	<u>\$26,491,825</u>

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

Credit risk—The District does not have a formal policy with respect to credit risk. At June 30, 2007, credit risk for the District’s investments was as follows:

Investment Type	Rating	Rating Agency	Amount
County Treasurer’s investment pool	Unrated	Not applicable	\$24,741,475
Mutual funds—U.S. Treasury securities	Aaa	Moody’s	<u>1,750,350</u>
Total			<u>\$26,491,825</u>

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty’s failure, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy with respect to custodial credit risk. At June 30, 2007, the District had \$1,750,350 of mutual funds—U.S. Treasury securities that were uninsured and held by the counterparty not in the District’s name.

Interest rate risk—The District does not have a formal policy with respect to interest rate risk. At June 30, 2007, the District had the following investments in debt securities:

Investment Type	Investment Maturities	
	Amount	Less than 1 year
County Treasurer’s investment pool	\$24,741,475	\$24,741,475
Mutual funds—U.S. Treasury securities	<u>1,750,350</u>	<u>1,750,350</u>
Total	<u>\$26,491,825</u>	<u>\$26,491,825</u>

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2007

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	\$ 47,221	Cash and cash equivalents	\$21,732,625
Amount of deposits	2,728,571	Restricted assets:	
Amount of investments	<u>26,491,825</u>	Cash and cash equivalents	5,784,641
		Cash and investments held by trustees	<u>1,750,351</u>
Total	<u>\$29,267,617</u>	Total	<u>\$29,267,617</u>

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 2,545,147			\$ 2,545,147
Construction in progress	<u> </u>	\$ 68,365		<u>68,365</u>
Total capital assets not being depreciated	<u>2,545,147</u>	<u>68,365</u>		<u>2,613,512</u>
Capital assets being depreciated:				
Buildings	44,752,067		\$ 55,704	44,696,363
Improvements other than buildings	4,234,087	54,590		4,288,677
Equipment	11,996,832	1,386,752	251,035	13,132,549
Library books	<u>1,403,409</u>	<u>63,854</u>	<u> </u>	<u>1,467,263</u>
Total capital assets being depreciated	<u>62,386,395</u>	<u>1,505,196</u>	<u>306,739</u>	<u>63,584,852</u>
Less accumulated depreciation for:				
Buildings	15,895,375	1,174,759		17,070,134
Improvements other than buildings	1,767,007	256,343		2,023,350
Equipment	9,246,439	1,052,092	238,855	10,059,676
Library books	<u>1,053,728</u>	<u>79,045</u>	<u> </u>	<u>1,132,773</u>
Total accumulated depreciation	<u>27,962,549</u>	<u>2,562,239</u>	<u>238,855</u>	<u>30,285,933</u>
Total capital assets being depreciated, net	<u>34,423,846</u>	<u>(1,057,043)</u>	<u>67,884</u>	<u>33,298,919</u>
Capital assets, net	<u>\$36,968,993</u>	<u>\$ (988,678)</u>	<u>\$ 67,884</u>	<u>\$35,912,431</u>

The decreases in buildings and equipment include adjustments to contractor billings for capital assets totaling \$65,531. The District has active construction projects with a remaining contractual commitment at June 30, 2007, of \$473,157. These projects will be funded through capital appropriations.

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2007

Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within 1 year
Compensated absences payable	<u>\$ 1,866,542</u>	<u>\$1,310,003</u>	<u>\$1,283,426</u>	<u>\$ 1,893,119</u>	<u>\$1,171,530</u>
Bonds payable:					
Revenue bonds	\$ 9,310,000		\$ 565,000	\$ 8,745,000	\$ 580,000
Deferred amount on refunding	<u>(299,235)</u>		<u>(149,617)</u>	<u>(149,618)</u>	
Total bonds payable	<u>9,010,765</u>		<u>415,383</u>	<u>8,595,382</u>	<u>580,000</u>
Pledged revenue obligations payable	12,075,000		765,000	11,310,000	790,000
Deferred amount on refunding	<u>(311,507)</u>		<u>(155,754)</u>	<u>(155,753)</u>	
Total pledged revenue obligations payable	<u>11,763,493</u>		<u>609,246</u>	<u>11,154,247</u>	<u>790,000</u>
Capital leases payable	<u>359,876</u>		<u>115,263</u>	<u>244,613</u>	<u>119,897</u>
Total long-term debt	<u>\$21,134,134</u>		<u>\$1,139,892</u>	<u>\$19,994,242</u>	<u>\$1,489,897</u>

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 bond proceeds for the series 2004 were used to advance refund a prior higher-rate revenue bond issue. Revenue bonds are repaid from tuition and fees and dormitory rentals and fees. Revenue bonds outstanding at June 30, 2007, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue Bonds—Series 2004	\$10,500,000	7/1/07-18	3.0-4.5%	\$8,745,000

The following schedule details debt service requirements to maturity for the District's bonds payable at June 30, 2007:

Year ending June 30,	Revenue Bonds	
	Principal	Interest
2008	\$ 580,000	\$ 355,506
2009	600,000	334,806
2010	620,000	310,406
2011	645,000	284,703
2012	675,000	257,478
2013-17	3,845,000	805,834
2018-19	<u>1,780,000</u>	<u>75,956</u>
Total	<u>\$8,745,000</u>	<u>\$2,424,689</u>

Pinal County Community College District
 (Central Arizona College)
 Notes to Financial Statements
 June 30, 2007

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, 2007, the following outstanding bonds were considered defeased:

Description	Amount
Revenue Bonds—Series 1998	\$6,685,000

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

Pledged revenue obligation requirements at June 30, 2007, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Pledged Revenue Obligations— Series 2004	\$13,530,000	7/1/07-18	2.5-4.125%	\$11,310,000

The following schedule details debt service requirements to maturity for the District's pledged revenue obligations payable at June 30, 2007:

Year Ending June 30,	Pledged Revenue Obligations	
	Principal	Interest
2008	\$ 790,000	\$ 384,638
2009	815,000	361,581
2010	835,000	339,937
2011	855,000	316,675
2012	880,000	290,650
2013-17	4,900,000	946,188
2018-19	2,235,000	92,438
Total	<u>\$11,310,000</u>	<u>\$2,732,107</u>

In prior years, the District defeased certain pledged revenue obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the obligations. Accordingly, the trust account assets and the liability for these defeased obligations are not included in the District's financial statements. At June 30, 2007, the following outstanding obligations were considered defeased:

Description	Amount
Pledged Revenue Obligations—Series 1998	\$6,435,000

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2007

Capital lease—The District has acquired a phone system and telecommunications equipment under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through the capital lease are as follows:

Equipment	\$499,876
Less: accumulated depreciation	<u>(147,218)</u>
Carrying value	<u>\$352,658</u>

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2007:

Year ending June 30	
2008	\$129,730
2009	<u>129,730</u>
Total minimum lease payments	259,460
Less amount representing interest	<u>14,847</u>
Present value of net minimum lease payments	<u>\$244,613</u>

Note 5 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with seven other Arizona community college districts and more than 200 Arizona school districts in the Arizona School Risk Retention Trust, Inc. (Trust), a public-entity risk pool. The Trust insures the District against liabilities arising from general liability; professional liability; property, automobile, boiler, and machinery; and commercial crime risks. The Trust's operating agreement includes a provision for the member to be charged an additional assessment in the event that total claims paid by the Trust exceed the members' contributions and reserves in any single year. The District will be charged for any such assessment in the following year. The District also carries commercial insurance for other risks of loss, including workers' compensation, accidental death and dismemberment for students and employees, employee travel, and extended reporting for errors and omissions. Settled claims resulting from any of these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years except in the year ended June 30, 2005, when the District was charged an additional assessment for insurance claims liability in the amount of \$29,997.

Pinal County Community College District
 (Central Arizona College)
 Notes to Financial Statements
 June 30, 2007

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

The insurance claims payable liability of \$476,000 at June 30, 2007, 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, 2007. Changes in the District's claims payable for the years ended June 30, 2007 and 2006 were as follows:

	2007	2006
Claims payable, beginning of year	\$ 412,000	\$ 333,788
Current year claims and changes in estimates	2,545,716	2,596,791
Claim payments	<u>(2,481,716)</u>	<u>(2,518,579)</u>
Claims payable, end of year	<u>\$ 476,000</u>	<u>\$ 412,000</u>

Note 6 - Operating Leases

The District leases classroom and office space under provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases were \$284,513 for the year ended June 30, 2007. The operating leases have remaining noncancelable terms from 3 to 4 years and provide for renewal options. The future minimum payments required under the operating leases at June 30, 2007, were as follows:

Year ending June 30		
2008	\$	295,592
2009		281,047
2010		253,450
2011		<u>260,300</u>
Total minimum lease payments		<u>\$1,090,389</u>

Pinal County Community College District
(Central Arizona College)
Notes to Financial Statements
June 30, 2007

Note 7 - Retirement Plan

Plan description—The District contributes to a cost-sharing, multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85012-0250 or by calling (602) 240-2000.

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, 2007, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2007, 2006, and 2005, were \$1,638,729, \$1,293,317, and \$953,861, respectively, which were equal to the required contributions for the year.

Note 8 - Operating Expenses

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

Personal services	\$27,212,082
Contract services	5,161,162
Supplies and other services	5,491,032
Communications and utilities	1,608,079
Scholarships	1,988,633
Depreciation	2,562,239
Other	<u>733,304</u>
Total	<u>\$44,756,531</u>

Note 9 - Subsequent Events

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

Pinal County Community College District
 (Central Arizona College)
 Notes to Financial Statements
 June 30, 2007

Note 10 - Central Arizona College Foundation

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

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

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

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	\$1,107,429
Other restricted scholarship programs	2,130,302
Foundation activities	<u>166,855</u>
Total	<u>\$3,404,586</u>

Temporarily restricted net assets are available for the following purposes:

Foundation activities and scholarships	\$629,840
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Supplementary Information

Pinal County Community College District
(Central Arizona College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development Hispanic-Serving Institutions Assisting Communities	14.514		\$ <u>190,503</u>
U.S. Department of Labor Community Based Job Training Grants	17.269		<u>67,322</u>
U.S. Small Business Administration Small Business Development Center, passed through Maricopa County Community College District	59.037	6-603001-Z-0003-14 7-603001-Z-0003-13	<u>56,223</u>
U.S. Department of Education Adult Education—Basic Grants to States, passed through the Arizona Department of Education	84.002	07FAEBE-770612-02A 06SAEBS-670612-01A	189,720
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		49,264
Federal Family Education Loans	84.032		2,179,817
Federal Work-Study Program	84.033		95,893
Federal Pell Grant Program	84.063		2,714,531
Academic Competitiveness Grants	84.375		<u>5,925</u>
Total Student Financial Assistance Cluster			<u>5,045,430</u>
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	ED03-0030-08	51,716
Higher Education—Institutional Aid	84.031		549,831
TRIO—Student Support Services	84.042		208,476
Vocational Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	06FCTDBG-670612-04A 07FCTDBG-770612-03A	144,736
Leveraging Educational Assistance Partnership, passed through the Arizona Commission for Postsecondary Education	84.069	None	10,628
Rehabilitation Services—Vocational Rehabilitation Grants to States, passed through the Arizona Department of Economic Security	84.126	E5345516	30,348
Bilingual Education—Professional Development	84.195		64,831

(Continued)

See accompanying notes to schedule.

Pinal County Community College District
(Central Arizona College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Even Start—Migrant Education, passed through the Arizona Department of Education	84.214	06FECMEE-670612-03A	\$ 11,738
Tech-Prep Education, passed through Pinal County Tech-Prep Consortium	84.243	07FCTDTP-770734-01A	<u>10,097</u>
Total U.S. Department of Education			<u>6,317,551</u>
Total Expenditures of Federal Awards			<u>\$ 6,631,599</u>

See accompanying notes to schedule.

Pinal County Community College District
(Central Arizona College)
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

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 2007 *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	\$29,665



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of
Pinal County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Pinal County Community College District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 27, 2009. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Central Arizona College Foundation, 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 and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

Internal Control over Financial Reporting

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.

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 07-01 through 07-07 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 item 07-05 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors 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 36 through 39. 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

February 27, 2009



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of
Pinal County Community College District

Compliance

We have audited the compliance of Pinal County Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying Schedule of Findings and Questioned Costs as items 07-101 through 07-102.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with 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 the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

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 07-101 through 07-102 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

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 did 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 40. 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

February 27, 2009

Pinal County Community College District
 (Central Arizona College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2007

Summary of Auditors' Results

Financial Statements

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

Federal Awards

Material weaknesses identified in internal control over major programs?		___	<u>X</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>X</u>	___	___
Type of auditors' report issued on compliance for major programs:			Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___	___

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	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?	___	___	<u>X</u>

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?		<u>X</u>	___
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Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Financial Statement Findings

07-01

The District should strengthen internal controls over purchasing

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

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

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

A similar recommendation was provided to the District in the prior year.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

07-02

Controls over the District's computer system should be strengthened

The District electronically processes and stores sensitive student, financial, and employee information on its computer system. As such it is essential for the District's computer system to function properly and to safeguard confidential or sensitive information. Therefore, it is critical that the District have effective written policies and procedures to provide the basic framework for establishing accountability to ensure that only authorized users have access to read, create, or modify data in the system, which helps reduce the risk of theft, manipulation, or misuse of confidential or sensitive information. Also, they help ensure that changes are appropriately made and tested before being placed into operation. However, the District did not have adequate policies and procedures to control changes to information system programs or control user access for its computer system. Specifically, the District did not adequately limit access to its computer system since one employee with managerial decision-making authority prepared the financial statements, had access to the student financial aid subsystem as well as other subsystems not necessary for his responsibilities, and could create and modify financial data outside of the financial statement subsystem. Additionally, payroll employees could change employee information within the system. Further, confidential or sensitive student information is not secured in the student information systems database making the records at risk if the system was compromised.

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

Access controls

- Require supervisory approval for all requests for system access. Requests should contain all necessary information for assigning the appropriate level of system access.
- Maintain appropriate system access rights for each employee that are compatible with the employee's job responsibilities.
- Review user access rights at regular intervals and after personnel changes, such as promotion, demotion, transfer, or termination.
- Encrypt sensitive student information to prevent unauthorized users from viewing the data if the system becomes compromised.

Routine program change controls

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

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Emergency program change controls

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

A similar recommendation was provided to the District in the prior year.

07-03

The District should strengthen internal controls over capital assets

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. The District had written policies and procedures related to capital assets; however, its policies and procedures did not include adequate controls for the disposal of capital assets. Specifically, policies did not require that disposal authorization forms be prepared prior to capital assets being deleted from the capital assets system. Auditors noted that 6 of 20 asset deletions tested did not have disposal forms prepared prior to removing them from the capital assets system. In addition, the policies did not require an investigation be performed for lost property or that a police report be filed for stolen property and did not address the disposition of assets acquired with federal monies, which may require reimbursement to be paid to the federal awarding agency. Furthermore, the director of purchasing services was responsible for periodic physical inventories, could remove items from the capital assets system without approval, and could initiate and approve purchases under \$5,000. Finally, some assets were not promptly removed from the capital assets system after disposition.

The following procedures can help the District strengthen its controls over capital assets:

- Prepare disposal authorization forms for all capital assets before they are disposed of, and require a manager to approve all disposals prior to removing the assets from the capital assets system.
- Investigate and search for missing capital assets prior to removing them from the system.
- File a police report for all capital assets that are identified as stolen.
- Add procedures for the disposal of assets acquired with federal monies to the District's policies and review all such asset disposals to determine if the District must reimburse the federal awarding agency.
- Separate responsibilities for capital assets so that the employee responsible for performing capital assets physical inventories does not have the authority to remove assets from the capital assets system.
- Remove assets from the capital assets system within 30 days after verification of asset disposal.

In addition, the District should ensure that all employees follow its capital asset policies and procedures.

A similar recommendation was provided to the District in the prior 3 years.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

07-04

The District should update and test its disaster recovery plan

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. However, the District did not have a current and tested disaster recovery plan for its computerized information systems, as the plan had not been updated or tested since its implementation.

A properly designed disaster recovery plan helps ensure that proper procedures are in place to provide for the continuity of operations and helps ensure that electronic data files are not lost in the event of a service interruption. The District should update its disaster recovery plan to include the following:

- A risk analysis identifying critical applications and exposures, and an assessment of the impact to the District.
- Arrangements with vendors to support needed hardware and software requirements.
- A list of detailed procedures for processing critical transactions.

Further, the disaster recovery plan should be stored off-site, and updated and tested annually.

A similar recommendation was provided to the District in the prior year.

07-05

The District should monitor its service provider for its employee health plans

The District hired a consulting firm to help calculate medical premiums and pay employee and dependent medical claims. The District relied on the consulting firm to reconcile its employee benefits bank account on a monthly basis and provide financial reports of claims it paid. However the District did not adequately monitor the consulting firm during fiscal year 2007. In addition, the consulting firm was an authorized signer on the employee benefits bank account and the District did not limit monies in the bank account to cover only the current month's expenses. Therefore, the consulting firm had access to excess monies which at June 30, 2007, totaled over \$895,000.

This finding is considered a material weakness over financial reporting.

To strengthen controls over its employee benefits bank account, the District should monitor financial activity performed on its behalf by its consultants. Specifically, the District should prepare the monthly bank reconciliation for its employee benefits bank trust account. The employee preparing this 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. Excess monies should not be deposited into the account, but rather deposited into one of the District's other bank accounts.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

07-06

The District should strengthen controls over credit cards

The District issued credit cards to approximately 72 of its employees to pay for goods, services, and travel expenditures. Credit card limits ranged from \$2,500 to \$15,000 a month with a total limit for all cards of \$325,000. The District's policies and procedures required employees to submit credit card receipts and supporting purchase documentation to the Business Office, which were compared to the credit card billing prior to payment. However, district employees did not always submit credit card receipts and supporting purchase documentation to the Business Office in a timely manner. As a result, the credit card balances were not always paid in full each month and the District incurred interest charges on the unpaid balances. Auditors determined that the District had cash available to pay the cards' full balances each month.

The District should enforce its written policies and procedures over credit card purchases by requiring employees to submit credit card receipts and supporting purchase documentation to the Business Office monthly. 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. Enforcing policies and procedures will help the District resolve any questionable billings promptly and avoid interest charges.

A similar recommendation was provided to the District in the prior year.

07-07

The District should issue timely financial statements

The District's Governing Board depends on accurate information to fulfill its oversight responsibility and report accurate information to the public. In addition, the District must 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 covenants. To achieve these objectives, management should establish procedures to ensure that financial statements and supporting schedules are prepared in a timely manner. However, it took the District 12 months after fiscal year-end to complete its financial statements and supporting schedules because it had not established procedures and deadlines for the financial reporting process.

This problem delayed the issuance of the District's Single Audit Reporting Package for the year ended June 30, 2007. The federal reporting deadline for the Single Audit Reporting Package was March 31, 2008.

To help ensure that financial statements are prepared and issued in a timely manner, the District should:

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

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

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**

84.031 **Higher Education—Institutional Aid**

U.S. Department of Education

Award Year: July 1, 2006 through June 30, 2007

October 1, 2005 through September 30, 2010

Cash Management

Questioned Cost: Unknown

The District receives some federal funding on a reimbursement basis which means that the District must pay eligible program costs before requesting reimbursement from the federal government. However, the District did not have adequate controls to ensure that requests for reimbursement were accurate and approved prior to submission. Auditors noted that one employee was responsible for compiling, approving, and submitting the requests without supervisory review. In addition, the District did not reconcile the disbursement subsystem to the finance subsystem for the Student Financial Assistance Cluster. As a result, the District requested \$9,521 for the Federal Pell Grant Program, which had already been reimbursed in the prior fiscal year. The District never received the additional funds from U.S. Department of Education (USDOE).

It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance over the program's and Cluster's cash management requirements.

To comply with 34 Code of Federal Regulations (CFR) §80.20 b(3), the District should assign a second employee to review reimbursement requests for accuracy before they are submitted to the USDOE. Further, the second employee should reconcile the disbursement subsystem to the financial subsystem to help ensure reimbursement requests are based on actual disbursements.

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

07-102

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

U.S. Department of Education

Award Year: October 1, 2005 through September 30, 2010

Procurement, Suspension and Debarment

Questioned Cost: N/A

The District did not establish internal control policies and procedures to ensure that it obtains the required suspension and debarment certifications from its vendors or that contract award approval documentation is retained. Specifically, for all vendors tested who were paid over \$25,000 in federal monies, auditors were unable to verify that the District had determined 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. Auditors also noted that for one of five purchases tested, documentation of approval of the award was not retained. In addition, for two of five purchases tested, the District did not provide support to auditors that the contracts were presented to the governing board per District policy. This finding has the potential to affect other federal programs administered by the District.

This finding is a significant deficiency in internal control over compliance and noncompliance with the program's procurement, suspension and debarment requirement.

To help ensure compliance with 34 CFR §74.13, the District should amend its procurement policies and procedures to address all Federal 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. In addition, the District should enforce its policies and procedures when contracting for goods and services to ensure that the appropriate supervisors approve the contract awards and document that in the files.



February 18, 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

Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2007

Financial Statement Findings

07-01

The District should strengthen internal controls over purchasing.

Russell Banta, Vice President of Finance and Administration

Anticipated Completion Date: January, 2009

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

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

07-02

Controls over the District's computer system should be strengthened.

Russell Banta, Vice President of Finance and Administration

Anticipated Completion Date: February, 2008

Corrective Action Plan – Current procedures have been strengthened to limit access and update capabilities for each user that is compatible with their role and responsibilities. Additional access controls and encryption methods over the student information system are also being evaluated in order to strengthen procedures when storing and moving back-end data. Procedures have been modified to ensure written authorization for any addition, change, and termination of user system access. Procedures have also been modified to prohibit payroll employees from changing personnel information. In addition, procedures have been modified so purchasing employees cannot change vendor master file information without supervisory approval.

Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2007

07-03

The District should strengthen internal controls over capital assets.

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

Corrective Action Plan – Procedures have been strengthened to ensure missing capital items are properly investigated and the disposal of capital assets are properly authorized, documented and entered in a timely manner. Further, responsibilities have been segregated so that employees responsible for performing capital asset inventories cannot delete assets from the capital assets system.

07-04

The District should update and test its disaster recovery plan.

Russell Banta, Vice President of Finance and Administration
Anticipated Completion Date: March, 2008

Corrective Action Plan – The District has updated its computerized information systems disaster recovery plan to ensure electronic data files are not lost due to a major system failure or other interruption. The disaster recovery system was tested in spring 2008 and is scheduled to be updated and tested annually.

07-05

The District did not properly monitor its outside service provider.

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

Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2007

07-06

The District should strengthen controls over credit cards.

Russell Banta, Vice President of Finance and Administration
Anticipated Completion Date: July, 2008

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 and that supporting documentation for the purchase is received from the employee in a timely manner.

07-07

The District should issue timely financial statements.

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

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

Pinal County Community College District
(Central Arizona College)
Corrective Action Plan
Year Ended June 30, 2007

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

Russell Banta, Vice President of Finance and Administration

Anticipated Completion Date: January, 2009

Corrective Action Plan – Procedures have been strengthened to ensure that drawdown requests are properly reviewed and approved and reconciliations are performed to review the financial aid subsystem and the general ledger subsystem.

07-102

CFDA No.: 84.031 Higher Education_Institutional Aid

Russell Banta, Vice President of Finance and Administration

Anticipated Completion Date: January, 2009

The District procurement procedures have been strengthened 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.



December 3, 2008

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

Pinal County Community College District
(Central Arizona College)
Schedule of Prior Year Audit Findings
Year Ended June 30, 2007

Federal Award Findings and Questioned Costs

06-101

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants

84.032 Federal Family Education Loans

84.033 Federal Work-Study Program

84.063 Federal Pell Grant Program

Status – Fully Corrected

06-102

Student Financial Assistance Cluster

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants

84.032 Federal Family Education Loans

84.033 Federal Work-Study Program

84.063 Federal Pell Grant Program

Status – Fully Corrected