

REPORT HIGHLIGHTS
FINANCIAL STATEMENT AND
SINGLE AUDITS

Our Conclusion

Navajo County Community College District is responsible for preparing annual financial statements and a schedule of expenditures of federal awards, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the District's financial statements, schedule, and major federal programs annually. A summary of the financial statements and schedule of expenditures of federal awards is presented to the right.

Based on our audits, we issued opinions on the District's financial statements and its schedule of expenditures of federal awards and reports on its internal control and compliance over financial reporting and major federal programs. The information in the District's fiscal year 2015 financial statements and schedule of expenditures of federal awards is reliable. Our Office identified an internal control deficiency over financial reporting. This finding is summarized on the next page.



2015

Year Ended June 30, 2015

Condensed financial information

Statement of net position—This statement reports all of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three major categories:

- **Net investment in capital assets**—shows the equity in property, buildings, and equipment.
- **Restricted**—shows the resources that must be used for restricted purposes as specified by donors and other external entities, such as the federal government.
- **Unrestricted**—shows the remaining net position balance after the net investment in capital assets and restricted balances have been allocated. The balance was reduced in fiscal year 2015 because of the District's implementation of new pension accounting standards. Additional information on the implementation of these new standards is included on the next page.

Statement of revenues, expenses, and changes in net position—This statement reports all revenues, expenses, and other changes in net position. Revenues and expenses are reported as either operating or nonoperating. The change in net position indicates whether financial health has improved or deteriorated as a result of current-year activities. Net position increased by \$3.4 million, or 6 percent in fiscal year 2015.

Schedule of expenditures of federal awards—During fiscal year 2015, the District expended \$4.0 million in federal awards, which consisted primarily of student financial assistance that was spent as educational and general operating expenses. The District's federal award expenditures decreased by \$93,000, or 2.2 percent, compared to fiscal year 2014.

**Condensed statement of net position
As of June 30, 2015
(In thousands)**

Assets	
Current assets	\$46,572
Noncurrent, other than capital	388
Capital assets, net of depreciation	39,061
Total assets	<u>86,021</u>
Deferred outflows of resources	<u>2,356</u>
Liabilities	
Net pension liability	19,552
Other liabilities	2,423
Total liabilities	<u>21,975</u>
Deferred inflows of resources	<u>3,465</u>
Net position	
Net investment in capital assets	39,023
Restricted	315
Unrestricted	23,599
Total net position	<u>\$62,937</u>

**Condensed statement of revenues,
expenses, and changes in net position
For the year ended June 30, 2015
(In thousands)**

Operating revenues	
Tuition and fees, net of scholarship allowances	\$ 2,358
Government contracts	3,283
Other	384
Total operating revenues	<u>6,025</u>
Operating expenses	
Educational and general	27,082
Auxiliary enterprises	399
Depreciation	2,053
Total operating expenses	<u>29,534</u>
Operating loss	(23,509)
Nonoperating revenues and expenses	
Property taxes	13,980
State appropriations	7,277
Government grants	4,729
Other revenues	922
Nonoperating expenses	(3)
Net nonoperating revenues	<u>26,905</u>
Increase in net position	3,396
Net position—beginning, as restated	59,541
Net position—ending	<u>\$62,937</u>

**Condensed schedule of expenditures
of federal awards by grantor agency
For the year ended June 30, 2015
(In thousands)**

Department of Education	\$3,520
Department of Labor	396
Small Business Administration	117
Total federal expenditures	<u>\$4,033</u>

Significant pension reporting changes starting in fiscal year 2015

The Governmental Accounting Standards Board (GASB) issued new pension accounting standards for all state and local governments that resulted in significant reporting changes starting in fiscal year 2015. The District is required to follow these new standards because its employees are members in the Arizona State Retirement System defined benefit pension plan. The new GASB standards are designed to increase the transparency, consistency, and comparability of pension information across governments. In addition, they require all governments to report more robust pension information, including their share of any unfunded, or net, pension liability, which was \$19.6 million for the District at June 30, 2015. The net pension liability is calculated by subtracting the pension plans' assets from the estimated pension obligations and means that the assets are less than estimated pension obligations. This liability reduced the District's unrestricted net position.

It is important to note that the new reporting requirements will not change the actual cost of providing pension benefits. As they always have, the District and its participating employees will continue to pay their required contributions to cover the estimated pension benefits. The District's contributions were \$1.4 million in fiscal year 2015.

Summary of audit findings and recommendations

For the financial statement audit, we found an internal control weakness over the District's reporting of capital assets. For the federal compliance audit, we tested two federal programs under the major program guidelines established by the Single Audit Act and reported no deficiencies in internal control or instances of noncompliance over federal programs. Our Single Audit Report includes a Schedule of Findings and Questioned Costs that contains further details to help the District correct the deficiency summarized below.

Improvements needed for capital assets reporting and stewardship

The District did not have effective internal controls over the disposal of capital equipment, which exposed the District to theft or misuse. Specifically, auditors noted that the District did not always complete an authorization form when disposing of equipment nor was equipment removed from its accounting records in the year in which the disposal occurred. As a result, the District did not properly report capital assets balances and depreciation related to equipment in its notes to the financial statements.

Recommendation

To help ensure that capital assets are properly controlled, safeguarded, and accurately reported in its financial statements and related note disclosures, the District should evaluate its existing capital assets policies and procedures to help ensure they are sufficiently detailed to address the disposal of equipment and its subsequent removal from the accounting records in the year in which the disposal takes place.