

REPORT HIGHLIGHTS
SINGLE AUDIT

Subject

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

Our Conclusion

The information in the District's financial statements is fairly stated in all material respects, and the financial statements can be relied upon. However, for 2 of 5 federal programs tested, the District failed to maintain adequate internal control or comply with one or more of the compliance requirements for those programs. The auditors reported a material control weakness and material noncompliance for one of those programs.



2002

Year Ended June 30, 2002

New Standards Change the Focus of Financial Reporting

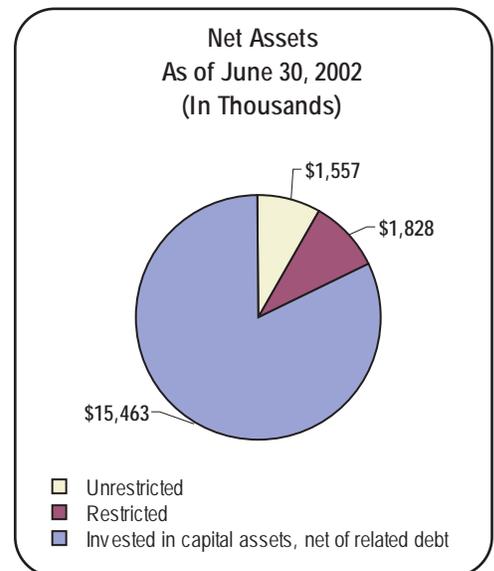
During fiscal year 2002, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. This Statement establishes new external financial reporting standards for public colleges and universities.

GASB Statement No. 35 requires the District to present financial statements on a consolidated basis to focus on the District as a whole; previously, financial statements focused on the accountability of individual fund groups. The new standards require three basic financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets reports all assets and liabilities using the accrual basis of accounting, which is similar to the accounting that most private-sector institutions use. Net assets, the difference between assets and liabilities, is one way to measure the District's financial health. Net assets includes three major categories. The first category—invested in capital assets, net of related debt—shows the District's equity in property, plant, and equipment. The second category—restricted net

assets—shows the net resources available for certain district expenses. These net assets must be used for purposes determined by donors and external entities that have placed purpose restrictions on the use of those resources. The third category—unrestricted net assets—shows net resources available to the District to fund general operations. The chart below illustrates the components of the District's net assets as of June 30, 2002.



Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the District's operating results, as well as nonoperating revenues and expenses. Revenues and expenses are classified as operating if they relate to the District's primary activities, such as instruction and student services. All other revenues and expenses, such as state

appropriations, property tax revenues, and interest expense on debt, are considered nonoperating, with two exceptions. Capital appropriations and capital grants and gifts are reported separately following nonoperating revenues and expenses. The summaries below present the District's revenues and expenses for the year ended June 30, 2002.

Revenues For the Year Ended June 30, 2002 (In Thousands)	
Operating Revenues:	
Tuition and fees	\$ 3,360
Government grants and contracts	5,401
Private grants and contracts	111
Bookstore income	752
Food service income	89
Dormitory rentals and fees	326
Other	363
Total operating revenues	<u>10,402</u>
Nonoperating Revenues:	
Property taxes	15,910
State appropriations	6,030
Share of state sales taxes	444
Governmental grants and contracts	79
Investment income	109
Gain on disposal of capital assets	10
Total nonoperating revenues	<u>22,582</u>
Capital appropriations	683
Capital grants and gifts	344
Total revenues	<u>\$34,011</u>

Expenses For the Year Ended June 30, 2002 (In Thousands)	
Operating Expenses:	
Educational and general:	
Instruction	\$13,255
Public service	111
Academic support	2,130
Student services	2,202
Institutional support	4,792
Operation and maintenance of plant	3,164
Scholarships	1,414
Auxiliary enterprises	1,813
Depreciation	1,908
Total operating expenses	<u>30,789</u>
Nonoperating Expenses:	
Interest expense on debt	1,019
Total expenses	<u>\$31,808</u>

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement helps users assess the District's ability to generate net cash flows to meet its obligations as they come due, and the need for external financing. The summary to the right shows the net cash flows from each of the District's major activities.

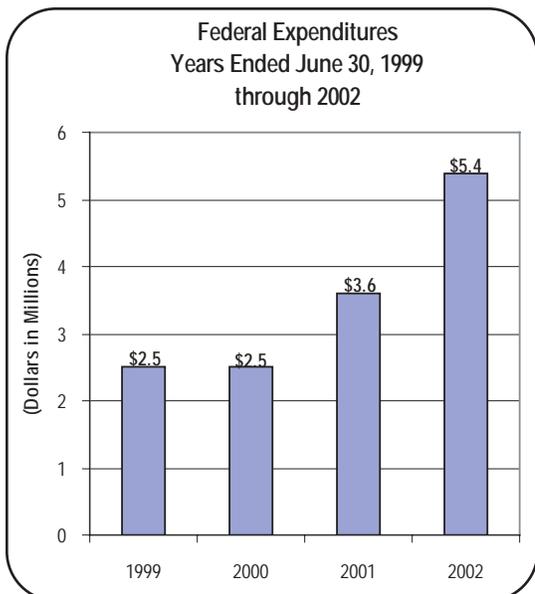
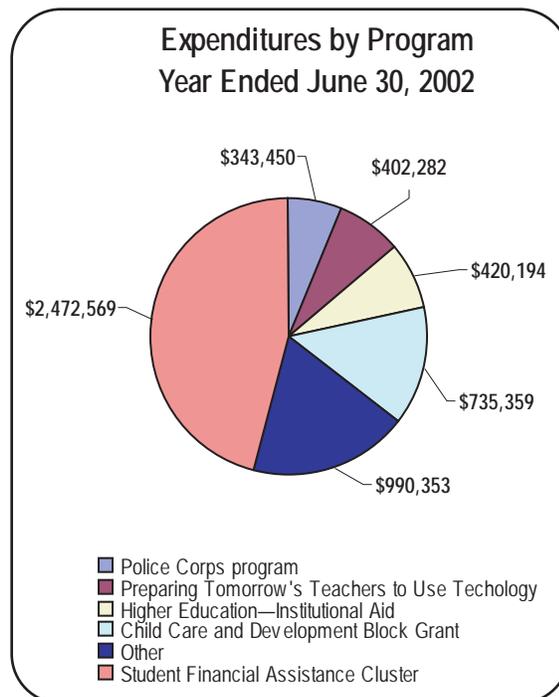
Cash Flows For the Year Ended June 30, 2002 (In Thousands)	
Cash flows from:	
Operating activities	\$(18,781)
Noncapital financing activities	21,866
Capital and related financing activities	(3,710)
Investing activities	57
Net decrease in cash	<u>\$ (568)</u>

Expenditures of Federal Awards Increased \$1.8 Million

The District's expenditures of federal monies increased \$1.8 million, or 50 percent, from fiscal year 2001 to fiscal year 2002 as illustrated in the figure below. This large increase was similar to the increase in the prior year and was attributable to increases in expenditures for three programs. The largest increase was a \$535,000 increase, or 29 percent, in expenditures of student financial assistance (SFA) monies from the previous fiscal year. Expenditures for the Child Care and Development Block Grant program increased approximately \$250,000, or 54 percent and expenditures for the Police Corps program increased almost \$330,000, or 2,246 percent, from the previous fiscal year.

The increase in non-student financial assistance federal award monies resulted from the District more actively pursuing federal programs. The increase in SFA resulted from both a larger number of eligible students and increased benefits.

The District spent 46 percent of its federal monies in SFA programs in fiscal year 2002. Expenditures for five of the District's federal programs accounted for 82 percent of its total federal expenditures for fiscal year 2002 as illustrated below:



The Single Audit Fact Sheet

- Two weaknesses in federal compliance internal controls.
- One material weakness in federal compliance internal controls.
- One material instance of noncompliance of federal program requirements.
- Program costs totaling \$259,496 that were questioned as a result of our audit.

The District needs to meet federal matching requirements

The District failed to meet the 50 percent matching requirement for the Preparing Tomorrow's Teachers to Use Technology program. The District had documented only \$142,786 of the required \$402,282 for this program, resulting in material noncompliance and a questioned cost of \$259,496.

The District needs to resolve the noncompliance issue of the matching requirement with the U.S. Department of Education.

TO OBTAIN MORE INFORMATION

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



or by visiting
our Web site at:
www.auditorgen.state.az.us

Contact person for
this report:
Phil Shultz