



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statements and Report on Internal Control and
on Compliance

**Gila County Provisional
Community College District**

(Gila Community College)

Year Ended June 30, 2010



Debra K. Davenport
Auditor General

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Gila County Provisional Community College District
(Gila Community College)
Financial Statements and Report on Internal Control and on Compliance
Year Ended June 30, 2010

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Gila County Provisional Community College District

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities and general fund of Gila County Provisional Community College District as of and for the year ended June 30, 2010, and the related notes to financial statements that collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for preparing and fairly presenting these financial statements in accordance with U.S. generally accepted accounting principles; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the financial statements based on conducting the 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. We believe that the audit evidence we have obtained regarding the District's legally separate component units was sufficient and appropriate to provide a basis for our adverse opinion on the aggregate discretely presented component units. However, because of the matters described in the Basis for Disclaimers of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions on the District's governmental activities and general fund financial statements.

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for the District's legally separate component units. U.S. generally accepted accounting principles require the financial data for the component units to be discretely presented with the financial data of the District's primary government. The amounts that would be reported in the financial statements for the discretely presented component units have not been prepared.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units paragraph, the financial statements referred to above do not present fairly the financial position of the discretely presented component units of Gila County Provisional Community College District as of June 30, 2010, or the changes in its financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Disclaimer of Opinion on the Financial Statements as a Whole

Gila County Provisional Community College District had inadequate internal controls over its accounting system and had incomplete and inadequate accounting records for revenues, education and general expenses, and capital assets. As a result of these matters, we could not rely on the District's accounting system to generate reliable information. Further, the District's records did not permit us to apply auditing procedures sufficient to determine whether the amounts reported for revenues, education and general expenses, capital assets, and related note disclosures were accurate and complete.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions. Accordingly, we do not express opinions on the financial statements referred to above.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages i through iv and the Budgetary Comparison Schedule—General Fund on pages 11 and 12 be presented to supplement the basic financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards because the District did not maintain adequate internal controls over its accounting system and had incomplete and inadequate accounting records. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2016, 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* in considering the District's internal control over financial reporting and compliance.

Debbie Davenport
Auditor General

May 24, 2016



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Management's Discussion and Analysis

Our discussion and analysis of the Gila County Provisional Community College District's (District's) financial performance provides an overview of the District's financial position and activities for the year ended June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow.

Basic Financial Statements

The District's annual financial statements were prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP). The District is a special-purpose governmental unit governed by a separately elected governing body. The financial statements are presented in accordance with the reporting model prescribed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis*, and consist of the following:

The government-wide and fund financial statements are combined, with a reconciliation shown between them.

The Governmental Fund Balance Sheet/Statement of Net Assets and Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities combines information about the reporting government as a whole and the fund statements that report the General Fund's financial position and the results of its operations. Government-wide financial statements are designed to provide readers with a broad overview of the District's finances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

The General Fund is the District's general operating fund. It is used to account for all of the District's financial resources.

Financial Highlights and Analysis

In accordance with State Statutes, the District does not offer degrees, certificates, or diplomas. As a result, the District has contracted with accredited districts to provide educational programs and services.

The District and Eastern Arizona College (EAC) entered into an intergovernmental agreement and operating agreement under which EAC provides educational programs and services to the District from July 1, 2005 through June 30, 2018. The agreement established that EAC will provide educational programs; certification of faculty; admission and registration of students; payroll services for EAC employees; academic records and transcripts; access to student information; financial aid counseling,

processing, and distribution; student employment; curriculum and master schedule development; information technology services; collection of all tuition and fees for credit courses; cashiering for EAC-related functions; access to information relative to enrollments; and payment to adjunct faculty.

The District exercises primary tax levy authority for the generation of funds and collects other general revenues to pay for the contracted education and other general operating expenses. The District continues to act in a financially conservative manner during the budgetary process, looking to maintain a secure financial future for the institution.

Condensed Financial Information

The financial information in the *Statement of Net Assets* on page 1 reflects the District's assets, liabilities, and net assets. The *Statement of Activities* on page 2 presents the information about the District's operations. Over time, increases or decreases in net assets may serve as a useful indicator of whether the District's financial position is improving or regressing. The following tables present summaries of the District's net assets and the changes in net assets for the years ended June 30, 2010 and 2009.

Net Assets *As of June 30, 2010 and 2009*

Assets:	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Increase/(Decrease)</u>
Current assets	\$1,532,687	\$1,412,225	\$ 120,462
Noncurrent assets:			
Capital assets, net of			
accumulated depreciation	<u>546,387</u>	<u>579,504</u>	<u>(33,117)</u>
Total assets	<u>2,079,074</u>	<u>1,991,729</u>	<u>87,345</u>
Liabilities:			
Other liabilities	1,833,294	2,009,269	(175,975)
Long-term liabilities	<u>112,020</u>	<u>123,769</u>	<u>(11,749)</u>
Total liabilities	<u>1,945,314</u>	<u>2,133,038</u>	<u>(187,724)</u>
Net Assets:			
Invested in capital assets, net			
of related debt	434,367	455,735	(21,368)
Unrestricted	<u>(300,607)</u>	<u>(597,044)</u>	<u>296,437</u>
Total net assets	<u>\$ 133,760</u>	<u>\$ (141,309)</u>	<u>\$ 275,069</u>

Changes in Net Assets
For the Years Ended June 30, 2010 and 2009

Expenses:	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Increase/(Decrease)</u>
Education and general	\$3,619,784	\$ 5,371,700	\$(1,751,916)
Interest on long-term debt	<u>6,897</u>	<u>6,622</u>	<u>275</u>
Total expenses	<u>3,626,681</u>	<u>5,378,322</u>	<u>(1,751,641)</u>
Revenues:			
Program revenues:			
Operating grants and contracts	<u>73,943</u>	<u>511,587</u>	<u>(437,644)</u>
Total program revenues	<u>73,943</u>	<u>511,587</u>	<u>(437,644)</u>
General revenues:			
Property taxes	3,146,957	2,874,047	272,910
State appropriations	658,408	657,828	580
Investment earnings	1,363	13,969	(12,606)
Other	<u>21,079</u>	<u>23,540</u>	<u>(2,461)</u>
Total general revenues	<u>3,827,807</u>	<u>3,569,384</u>	<u>258,423</u>
Total revenues	<u>3,901,750</u>	<u>4,080,971</u>	<u>(179,221)</u>
Change in net assets	\$ 275,069	\$(1,297,351)	<u>\$1,572,420</u>
Net assets:			
Beginning	<u>(141,309)</u>	<u>1,156,042</u>	
Ending	<u>\$ 133,760</u>	<u>\$ (141,309)</u>	

Significant Variances

For the fiscal year ended June 30, 2010, the seventh year of operations for the District, the financial data presented above is for analysis and comparison of significant variances relative to assets, liabilities, net assets, revenues, and expenses.

- Total assets at June 30, 2010 were \$2,079,074 consisting primarily of cash and investments of \$1,369,519 and capital assets, net of accumulated depreciation, of \$546,387. Cash and investments increased \$288,515 primarily due to a reduction in educational program expenses from the implementation of furloughs.
- The total liabilities of \$1,945,314 were comprised of current obligations for educational and general expenses and long-term liabilities for capital leases payable. The current obligations decreased by a net amount of \$175,195 primarily due a decrease in the intergovernmental educational programs and services contract payable at year-end.
- The decrease in educational and general expenses in the amount of \$1,751,916 was primarily due to the implementation of a furlough four-day week and reductions of significant one-time repair expenses made by the District during the previous fiscal year.
- The decrease in program revenues in the amount of \$437,644 was primarily due to the reduction of one-time revenues received from recovery act grants during the previous fiscal year.
- The increase in general revenues of \$258,423 is primarily due to an increase in property tax revenues. Property tax revenues increased by \$272,910 as a result of increased assessed valuations of property within the District.

- There was an increase of \$275,069 in net assets for the year ended June 30, 2010 because educational and general expenses decreased due to the implementation of a furlough four-day week and reductions of significant one-time expenses.

General Fund Budget

The District's actual educational and general expenditures were \$2,495,656 less than budgeted amounts primarily due to decreased operating costs from furloughs of four-day weeks implemented during the fiscal year and management's cost effective approach to spending. Capital outlay expenditures were \$292,089 less than budgeted amounts due to anticipated purchases that were not made.

Total revenues were \$494,730 less than budgeted. The difference in budgeted compared to actual operating grants and contracts was primarily due to applications for grant funding outstanding at the time the budget was adopted but not awarded. This led to a variance of \$236,057 less actual revenue than budgeted. The difference in budgeted compared to actual investment earnings was primarily due to a budgeting oversight by the District, which led to a variance of \$198,637 less than budgeted.

The District's actual beginning fund balance was \$2,851,617 less than budgeted due to changes in estimated fund balance between the time the budget was initially prepared and the year-end actual results.

Additional budgetary information can be found on pages 11 and 12 of this report.

Capital Assets and Debt Administration

Capital Assets. The District's total investment in capital assets, net of accumulated depreciation, was \$546,387 which was comprised of buildings and improvements, equipment, vehicles, and library books. This is a net decrease of \$33,117 from the prior year. The decrease can be attributed to depreciation expense in excess of current year additions.

Additional information on the District's capital assets can be found in Note 4 in the notes to the financial statements.

Debt Administration. At year end, the District had \$112,020 in capital lease long-term debt outstanding, \$35,031 due within one year. This represents a decrease of \$11,749 primarily due to lease payments made during the year.

Additional information on the District's long-term debt can be found in Note 6 in the notes to the financial statements.

Current Factors Having Probable Future Financial Significance

As a result of our partnership with EAC, Gila Community College is providing postsecondary education that is both relevant and cost effective in the areas of workforce development programs and the track for students planning to transfer to four-year universities later in their college career. Postsecondary education remains affordable to the adult learners in Gila County, which has a positive impact to the tuition revenues.

Request for Information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact Governing Board member Jay Spehar at (928) 425-8481.

Gila County Provisional Community College District
(Gila Community College)
Governmental Fund Balance Sheet/Statement of Net Assets
June 30, 2010

	Balance Sheet— General Fund	Reconciliation (Note 7)	Statement of Net Assets— Governmental Activities
Assets			
Current assets:			
Cash and investments	\$ 1,369,519		\$ 1,369,519
Property taxes receivable	141,545		141,545
Due from other governments	<u>21,623</u>		<u>21,623</u>
Total current assets	<u>1,532,687</u>		<u>1,532,687</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation		\$ 546,387	<u>546,387</u>
Total noncurrent assets		<u>546,387</u>	<u>546,387</u>
Total assets	<u>\$ 1,532,687</u>	<u>546,387</u>	<u>2,079,074</u>
Liabilities			
Current liabilities:			
Due to other governments	\$ 1,831,704		\$ 1,831,704
Deferred revenue	102,540	\$ (100,950)	1,590
Current portion of long-term debt	<u>35,031</u>	<u>35,031</u>	<u>35,031</u>
Total current liabilities	<u>1,934,244</u>	<u>(65,919)</u>	<u>1,868,325</u>
Noncurrent liabilities:			
Long-term debt	<u>76,989</u>	<u>76,989</u>	<u>76,989</u>
Total noncurrent liabilities	<u>76,989</u>	<u>76,989</u>	<u>76,989</u>
Total liabilities	<u>1,934,244</u>	<u>11,070</u>	<u>1,945,314</u>
Fund balances (deficit)/Net assets			
Fund balances (deficit):			
Unreserved	<u>(401,557)</u>	<u>401,557</u>	
Total fund balances (deficit)	<u>(401,557)</u>	<u>401,557</u>	
Total liabilities and fund balances (deficit)	<u>\$ 1,532,687</u>	<u>412,627</u>	
Net assets:			
Invested in capital assets, net of related debt		434,367	434,367
Unrestricted (deficit)		<u>(300,607)</u>	<u>(300,607)</u>
Total net assets		<u>\$ 133,760</u>	<u>\$ 133,760</u>

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Statement of Governmental Fund Revenues, Expenditures, and
Changes in Fund Balances/Statement of Activities
Year Ended June 30, 2010

	<u>General Fund</u>	<u>Reconciliation (Note 7)</u>	<u>Statement of Activities— Governmental Activities</u>
Expenditures/Expenses:			
Education and general	\$ 3,508,322	\$ 111,462	\$ 3,619,784
Debt service:			
Principal retirement	38,083	(38,083)	
Interest on long-term debt	6,897		6,897
Capital outlay	<u>78,345</u>	<u>(78,345)</u>	
Total expenditures/expenses	<u>3,631,647</u>	<u>(4,966)</u>	<u>3,626,681</u>
Program revenues:			
Operating grants and contracts	<u>73,943</u>		<u>73,943</u>
Total program revenues	<u>73,943</u>		<u>73,943</u>
Net program expenses	<u>3,557,704</u>	<u>(4,966)</u>	<u>3,552,738</u>
General revenues:			
Property taxes	3,150,580	(3,623)	3,146,957
State appropriations	658,408		658,408
Investment earnings	1,363		1,363
Other	<u>21,079</u>		<u>21,079</u>
Total general revenues	<u>3,831,430</u>	<u>(3,623)</u>	<u>3,827,807</u>
Other financing sources:			
Capital lease obligations	26,334	(26,334)	
Net change in fund balances (deficit)	300,060	(300,060)	
Change in net assets		275,069	275,069
Fund balances (deficit)/Net assets:			
July 1, 2009	<u>(701,617)</u>	560,308	<u>(141,309)</u>
June 30, 2010	<u>\$ (401,557)</u>	<u>\$ 535,317</u>	<u>\$ 133,760</u>

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Gila County Provisional Community College District (District) conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

For the year ended June 30, 2010, the District implemented the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets. The District has chosen to implement GASB Statement No. 51 prospectively as a Phase 3 government. No intangible assets were acquired during the fiscal year 2010.

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).

Because Gila County Provisional Community College District is a provisional district, it cannot offer degrees, certificates, or diplomas and, therefore, contracts with an accredited district. Educational programs and services are provided through intergovernmental agreements as follows:

The District and Eastern Arizona College (EAC) entered into an intergovernmental agreement and operating agreement under which EAC provides educational programs and services to the District from July 1, 2005 through June 30, 2018. The agreement established that EAC will provide educational programs; certification of faculty; admission and registration of students; payroll services for EAC employees; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; collection of all tuition and fees for credit courses; cashiering for EAC-related functions; access to information relative to enrollments; and payment to adjunct faculty. EAC charges the District a fee of 24.5 percent of the total disbursements it processes.

District personnel are not directly employed by the District. The staff are directly employed by EAC. The cost of the personnel compensation and related benefits is paid to EAC through the intergovernmental agreement.

B. Basis of Presentation and Accounting

The financial statements include the Governmental Fund Balance Sheet/Statement of Net Assets and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities. Since the District is a single-program government, it presents the government-wide financial statements in combination with the fund financial statements.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2010

The Governmental Fund Balance Sheet/Statement of Net Assets provides information about the District's assets, liabilities, and fund balance/net assets 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 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. Unrestricted net assets include all other net assets, including those that management has designated to be used for other than general operating purposes.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities provides information about the District's financial activities during the year. Revenues are classified as either program or general, and all changes in net assets are reported. Generally, revenues generated by the District for instruction and student services, along with operating and capital grants and contributions, are considered to be program revenues. Other revenues used for instruction and student services, such as property taxes, state appropriations, and investment earnings, not classified as program revenues are considered to be general revenues.

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government.

The fund financial statements, the Governmental Fund Balance Sheet and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance, are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year end. The District's major revenue sources susceptible to accrual are property taxes, state appropriations, government grants and contracts, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in the General Fund. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

The government-wide financial statements, the Statement of Net Assets and the Statement of Activities, 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 in 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.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2010

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.

C. Cash and Investments

The District's cash and cash equivalents are demand deposits and monies invested in the County Treasurer's investment pool. All investments are stated at fair value.

D. Capital Assets

Capital assets are reported at actual cost. 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
Buildings and improvements	\$5,000	Straight-line	40 years
Equipment	\$5,000	Straight-line	3-5 years
Vehicles	\$5,000	Straight-line	5 years
Library books	\$1	Straight-line	10 years

E. Property Tax Revenues

The District's property tax rate is adopted by the Governing Board and reviewed on an annual basis. The Gila County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

F. Investment Earnings

Investment earnings consist of interest earned on the cash and investments and net changes in the fair value of investments held by the County Treasurer.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2010

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. The statutes do not require the District to deposit other public monies in its custody with the County Treasurer; however, the District must act as a prudent person dealing with another's property when making investment decisions about those monies. 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, 2010, the carrying amount of the District's deposits was \$1,327,268, and the bank balance was \$1,117,757. The District does not have a formal policy with respect to custodial credit risk of deposits. At June 30, 2010, the District's deposits were entirely covered by Federal depository insurance.

Investments—The District's investments at June 30, 2010, were as follows:

Investment Type	Amount
County Treasurer's investment pool	\$42,251

The District's investment in the County Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments, and therefore, it is not subject to custodial credit risk. The pool's structure does not provide for shares. The District does not have a formal policy regarding custodial credit risk for investments.

Credit risk—The District does not have a formal policy with respect to credit risk. At June 30, 2010, credit risk for the District's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
County Treasurer's investment pool	Unrated	Not applicable	\$42,251

Interest rate risk—The District does not have a formal policy regarding interest rate risk for investments. At June 30, 2010, the District had the following investments:

Investment Type	Amount	Less than 1 year
County Treasurer's investment pool	\$42,251	238 days

A reconciliation of deposits and investments to amounts shown on the Statement of Net Assets follows:

Deposits, and investments:		Statement of Net Assets:	
Amount of deposits	\$1,327,268	Cash and investments	\$1,369,519
Amount of investments	42,251		
Total	<u>\$1,369,519</u>	Total	<u>\$1,369,519</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2010

Note 3 - Receivables

The General Fund reports deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The General Fund also defers revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the General Fund were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable	\$108,216	
Grant drawdowns prior to meeting all eligibility requirements		<u>\$1,591</u>
Total deferred revenue	<u>\$108,216</u>	<u>\$1,591</u>

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets being depreciated:				
Buildings and improvements	\$ 180,742			\$ 180,742
Equipment	766,441	\$ 49,617	\$ 21,874	794,184
Vehicles	144,340			144,340
Library books	<u>316,719</u>	<u>24,897</u>		<u>341,616</u>
Total capital assets being depreciated	<u>1,408,242</u>	<u>74,514</u>	<u>21,874</u>	<u>1,460,882</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,823)	(4,519)		(7,342)
Equipment	(583,156)	(62,872)	(21,874)	(624,154)
Vehicles	(133,309)	(7,531)		(140,840)
Library books	<u>(109,450)</u>	<u>(32,709)</u>		<u>(142,159)</u>
Total accumulated depreciation	<u>(828,738)</u>	<u>(107,631)</u>	<u>(21,874)</u>	<u>(914,495)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 579,504</u>	<u>\$ (33,117)</u>	<u>\$ -</u>	<u>\$ 546,387</u>

Note 5 - Due to Other Governments

At June 30, 2010, the District had reported a total amount due to other governments of \$1,831,704. Of this amount, \$1,475,884 is owed to EAC for providing educational programs and services during the year. The remaining portion of \$355,820 is payable to the Arizona State Treasurer.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2010

Note 6 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Capital leases payable	<u>\$123,769</u>	<u>\$26,334</u>	<u>\$38,083</u>	<u>\$112,020</u>	<u>\$35,031</u>
Total long-term debt	<u>\$123,769</u>	<u>\$26,334</u>	<u>\$38,083</u>	<u>\$112,020</u>	<u>\$35,031</u>

Capital leases—The District has acquired buildings and equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a transfer of ownership by the end of the lease term or are in place for greater than 75 percent of the economic life of the asset.

The assets acquired through capital leases are as follows:

Buildings	\$180,742
Equipment	91,731
Less: accumulated depreciation	<u>59,236</u>
Carrying value	<u>\$213,237</u>

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2010:

Year Ending June 30:	
2011	\$40,382
2012	37,306
2013	33,352
2014	10,378
2015	<u>1,731</u>
Total minimum lease payments	123,149
Less: amount representing interest	<u>11,129</u>
Present value of net minimum lease payments	<u>\$112,020</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2010

Note 7 - Reconciliations

The reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets at June 30, 2010, was as follows:

Fund balances (deficit)—governmental fund	\$(401,557)
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the governmental fund.	100,950
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	546,387
Long-term capital lease liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.	<u>(112,020)</u>
Net assets of governmental activities	<u>\$ 133,760</u>

The reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities for the year ended June 30, 2010, was as follows:

Net change in fund balances—governmental fund	\$300,060
Amounts reported for governmental activities in the Statement of Activities are different because:	
Collections of revenues in the governmental fund exceeded revenues reported in the Statement of Activities.	(3,623)
Governmental fund reports capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Expenditures for capitalized assets	74,514
Depreciation expense	<u>(107,631)</u>
Net capital outlay	(33,117)
Debt proceeds provide current financial resources to the governmental fund, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Assets.	
Debt issued or incurred	(26,334)
Principal repaid	<u>38,083</u>
Net debt proceeds	11,749
Change in net assets of governmental activities	<u>\$275,069</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2010

Note 8 - 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, through EAC, carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9 - Subsequent Events

In November 2011, the District received by way of transfer from Gila County the deed ownership of the land and facilities used for operations of the Gila Pueblo (Globe) campus and 32.459 acres of the Payson campus with an original cost recorded by Gila County of \$4.8 million and \$3.1 million, respectively. The assessed valuation for the property and buildings is \$465,594.

Gila County Provisional Community College District
(Gila Community College)
Required Supplementary Information
Budgetary Comparison Schedule—General Fund
Year Ended June 30, 2010

	Original and Final Budget	Actual Amounts	Variance with Final Budget
Revenues:			
Property taxes	\$ 3,177,103	\$ 3,150,580	\$ (26,523)
State appropriations	713,000	658,408	(54,592)
Operating grants and contracts	310,000	73,943	(236,057)
Investment earnings	200,000	1,363	(198,637)
Other	<u> </u>	<u>21,079</u>	<u>21,079</u>
Total revenues	<u>4,400,103</u>	<u>3,905,373</u>	<u>(494,730)</u>
Expenditures:			
Education and general	6,003,978	3,508,322	2,495,656
Debt service			
Principal retirement		38,083	(38,083)
Interest on long-term debt		6,897	(6,897)
Capital outlay	<u>344,100</u>	<u>52,011</u>	<u>292,089</u>
Total expenditures	<u>6,348,078</u>	<u>3,605,313</u>	<u>2,742,765</u>
Net change in fund balance (deficit)	(1,947,975)	300,060	2,248,035
Fund balance (deficit):			
July 1, 2009	<u>2,150,000</u>	<u>(701,617)</u>	<u>(2,851,617)</u>
June 30, 2010	<u>\$ 202,025</u>	<u>\$ (401,557)</u>	<u>\$ (603,582)</u>

See accompanying note to budgetary comparison schedule.

Gila County Provisional Community College District
(Gila Community College)
Required Supplementary Information
Notes to Budgetary Comparison Schedule—General Fund
June 30, 2010

Note 1 - Budgeting and Budgetary Control

Arizona Revised Statutes require the District to prepare and adopt a budget annually. The Governing Board must approve the operating and capital outlay budgets on or before June 20. The Governing Board shall not adopt the budget if the property tax requirements of the budget, excluding amounts budgeted and levied for secondary property taxes, exceed the amounts established by statute. The budget must contain the estimated cost of all operating, capital outlay, and debt service expenditures. The District budgets all General Fund expenditures in total since all costs are paid through the agreement with EAC.

Note 2 - Budgetary Basis of Accounting

The District's budget is prepared on a basis consistent with generally accepted accounting principles, except for the beginning unrestricted General Fund balance presented on the General Fund's Budgetary Comparison Schedule, which is budgeted on a cash basis, and the present value of net minimum capital lease agreements.

The following schedule reconciles the total expenditures and total other financing sources from the Statement of Revenues, Expenditures, and Changes in Fund Balances to the budgetary comparison schedule for the General Fund:

	Total Expenditures	Total Other Financing Sources
General Fund:		
Statement of Revenues, Expenditures, and Changes in Fund Balances	\$3,631,647	\$ 26,334
Present value of net minimum capital lease payments	<u>(26,334)</u>	<u>(26,334)</u>
Budgetary comparison schedule	<u>\$3,605,313</u>	<u>\$ -</u>



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
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
Gila County Provisional Community College District

We were engaged to audit, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and general fund of Gila County Provisional Community College District as of and for the year ended June 30, 2010, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 24, 2016. Our report disclaims an opinion on such financial statements because Gila County Provisional Community College District had inadequate internal controls over its accounting system and had incomplete and inadequate accounting records for revenues, education and general expenses, and capital assets. As a result of these matters, we could not rely on the District's accounting system to generate reliable information. Further, the District's records did not permit us to apply auditing procedures sufficient to determine whether the amounts and information reported for revenues, education and general expenses, capital assets, and related note disclosures were accurate and complete. In addition, our report was modified to include an adverse opinion for the omission of the aggregate discretely presented component units.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations as items 2010-01 through 2010-04, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and that is described in the accompanying Schedule of Findings and Recommendations as item 2010-01. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

District's Response to Findings

The District's responses to the findings identified in our audit are presented on page 21. The District's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Debbie Davenport
Auditor General

May 24, 2016

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
June 30, 2010

2010-01

The District must issue accurate and timely financial statements

Criteria: The District must issue accurate and timely financial statements to satisfy state audit and reporting requirements and demonstrate accountability to the public and public agencies from which the District receives funding. State laws require the District to submit to the Auditor General's Office within 9 months after fiscal year-end its annual audited financial statements prepared in accordance with generally accepted accounting principles and, based on those financial statements, its annual budgeted expenditure limitation report (ABELR). Therefore, the District has the responsibility to establish effective internal controls over financial reporting, such as maintaining a sound accounting system and adequate records, to help ensure it can prepare reliable and timely financial information for its stakeholders.

Condition and context: The District did not maintain effective internal control policies and procedures over financial reporting and did not keep a sound accounting system or have adequate and complete accounting records to support amounts and disclosures reported in its financial statements. Also, portions of the District's revenues, education and general expenditures/expenses, and capital assets were reflected on the billing invoices of Eastern Arizona College (EAC), the District's contracted educational and operating services provider. However, the District did not have policies and procedures requiring the billing invoices to be evaluated for accuracy, compliance with the contract, and proper recording within the District's accounting records. Specifically, we could not audit the amounts reported for revenues, education and general expenditures/expenses, capital assets, and related disclosures because the District did not have sufficient records, and the possible effects of financial statement errors could have been both material and pervasive.

Effect: The District's financial statements were not reliable and could not be audited. In addition, the District did not meet its annual reporting requirements because it did not issue financial statements and its ABELR until approximately 6 years after fiscal year-end. Also, the District risks potential noncompliance with its educational services and operating contracts with EAC.

Cause: The District's management lacked the expertise to establish effective internal control policies and procedures and establish and maintain a sound financial reporting system to prepare accurate and timely financial statements.

Recommendation: To help ensure the District establishes and maintains effective internal control policies and procedures and that its financial statements are reliable, timely, and prepared in accordance with generally accepted accounting principles, the District should implement the following:

- Employ or contract with persons who have the necessary finance and accounting abilities to establish and implement written internal control policies and procedures for financial reporting and who will also perform the ongoing recordkeeping and maintenance of the accounting system; organize and maintain all supporting invoices and other records; prepare appropriate journal entries; reconcile accounting records; prepare and review the financial statements, including notes to the financial statements, required supplementary information, and all supporting schedules; and prepare and review the ABELR.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
June 30, 2010

- Require a person with finance and accounting expertise to review and approve all adjusting journal entries, important supporting schedules and reconciliations, and the annual financial report prior to submitting it for audit.
- Assign someone with the necessary expertise to review the EAC billing invoices and supporting documentation against the EAC educational services and operating contracts to ensure compliance with the contracts' terms and conditions and that the terms and conditions are in the District's best interests. Additionally, this review should also include evaluating the proper accounting treatment of the underlying financial activity to be recorded on the District's accounting system.
- Develop and implement written policies and procedures for keeping adequate accounting records for grant revenues and other cash receipts and ensuring that they are properly recorded. These policies and procedures should also include guidance for evaluating the EAC billing invoices to identify financial activity that the District should record and ensure the District follows the appropriate accounting treatment.
- Develop and implement written policies and procedures that will ensure capital assets are appropriately safeguarded, inventoried, and reported. The District's policies should also specify its capitalization thresholds and valuation policies.
- Develop and implement written policies and procedures to help prevent or detect unauthorized use, damage, loss, or modification of the District's information technology resources and data, including defining, assigning, and approving system user roles and responsibilities based on job responsibilities, documenting all employee system-access assignments and authorizations, reviewing system users at least annually to ensure appropriateness, and monitoring system activity and audit logs for unusual or suspicious activity and investigating as necessary.

This finding is similar to prior-year finding. 2009-01

2010-02

The District needs policies and procedures for reporting its foundations

Criteria: To comply with generally accepted accounting principles (GAAP), specifically Governmental Accounting Standards Board (GASB) Statements Nos. 14 and 39, the District should obtain and report the financial information of its college foundations in its financial statements. These foundations receive or hold economic resources, such as donations for student scholarships and other resources, that directly benefit the District or its students.

Condition and context: The District had two college foundations that provided scholarships to students and conducted other fund-raising that benefited the District and its constituents. However, the District did not have complete and reliable financial statement information for these foundations. As such, the District omitted the financial statement information that should have been discretely presented in the District's financial statements.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
June 30, 2010

Effect: The District did not report the required financial information for its foundations. As a result, the District's financial statements were not presented in accordance with GAAP.

Cause: The District lacked adequate policies and procedures for obtaining its college foundations' financial information and evaluating the foundations against criteria in GASB Statements Nos. 14 and 39 for inclusion in its financial statements. Also, the District's management lacked the finance and accounting expertise necessary to effectively oversee this process.

Recommendation: To help ensure that it implements and maintains effective internal control policies and procedures for correctly applying the GASB criteria to prepare its financial statements in accordance with GAAP, the District should obtain annual financial statements from its foundations and appropriately evaluate them and include them as part of its financial reporting entity. In addition, the District should prepare an annual accounting of the benefits and economic resources that it receives from its foundations, such as the monetary or capital donations, as well as the scholarships awarded to its students.

This finding is similar to prior-year finding 2009-02.

2010-03

The District needs policies and procedures for disclosing conflicts of interest and material related-party transactions

Criteria: As required by Arizona Revised Statutes (A.R.S.) §38-503 et seq., the District's governing board members, management, and employees should make known any substantial interest they have in any contract, sale, purchase, or service, and abstain from any involvement in a decision for which a conflict of interest exists. Also, all conflict-of-interest disclosures should be reflected in the District's records, monitored on a periodic basis, and maintained in a centralized file that is made available for public inspection. In addition, generally accepted accounting principles (GAAP) require the disclosure of material related-party transactions in the financial statements.

Condition and context: The District's management and employees are employees of Eastern Arizona College (EAC) and, accordingly, are required to follow EAC's established policies and procedures for disclosing conflicts of interest. However, the District's governing board members are not EAC employees and lacked policies and procedures to help ensure that their conflicts of interest were disclosed and that they abstained from any involvement in a decision for which a conflict of interest exists. In addition, the District did not have policies and procedures for ensuring that all material related-party transactions were monitored and disclosed in the financial statements. For example, the District had not identified scholarships awarded to its students or donations that it received from its college foundations during the year to disclose this information in the notes to its financial statements.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
June 30, 2010

Effect: A risk of potential noncompliance with state laws regarding conflicts of interest that are set forth in A.R.S. §38-503 et seq., which could result in the District's entering into transactions that may not be the most advantageous. There is also a risk that the District could potentially violate federal laws, regulations, and contractual provisions that apply to its federal awards. Further, the occurrence of significant related-party transactions may not be identified and disclosed in the notes to the financial statements.

Cause: The District did not have policies and procedures in place to ensure that its governing board members complied with state laws requiring the disclosure of conflicts of interest. In addition, the District's management lacked the finance and accounting expertise necessary for identifying related-party transactions and disclosing them in the notes to the financial statements to comply with GAAP.

Recommendation: To help ensure that its governing board members comply with state and federal conflict-of-interest laws and regulations, and to help ensure significant related-party transactions are identified and disclosed in the notes to financial statements, the District should:

- Develop and implement policies and procedures that require the District's governing board members to disclose any direct or indirect substantial interest, including relatives, in any district contract for goods or services. Members should disclose any conflict of interest in the District's governing board meeting minutes and other records. Also, these policies and procedures should require that the District's governing board members abstain from any involvement in decisions for which a conflict of interest exists.
- Maintain a centralized file of all conflict-of-interest disclosures that is available for public inspection as required by state laws.
- Require a person with the necessary financial and accounting expertise to identify and monitor related-party transactions, many of which are disclosed as conflicts of interest, and ensure that material related-party transactions are disclosed in the notes to the District's financial statements, as required by GAAP.

This finding is similar to prior-year finding 2009-03.

2010-04

The District needs policies and procedures over cash receipts and disbursements and reconciling its cash and investments

Criteria: To demonstrate its fiscal accountability to the public and public agencies from which the District receives funding, the District should have effective policies and procedures for processing cash receipts and disbursements, performing bank reconciliations, and ensuring responsibilities are adequately separated to help ensure that monies are safeguarded against the risk of theft and misappropriation.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
June 30, 2010

Further, the District should reconcile its bank balances and activity to its general ledger, in addition to the check registers and cash receipt logs, to help ensure that all financial activity and reconciling items are recorded in its accounting records.

Condition and context: The District's balances for cash and investments comprised over \$1.3 million, or 89 percent of total assets. However, the District did not have adequate internal control policies and procedures for these balances because it did not separate the responsibilities of preparing bank deposits, authorizing disbursements and withdrawals, and performing bank reconciliations. Auditors noted that the same person completed these responsibilities without an independent review. Also, although the District reconciled its bank accounts to the check registers and cash receipt logs monthly, its procedures did not include verifying that the bank balances and activities reflected on the bank statements were properly recorded on the District's accounting records. Additionally, auditors noted that the District's cash receipts and check logs contained numerous refunds from vendors, indicating that duplicate payments and overpayments had been made to vendors when processing vendor invoices.

Effect: The District's accounting records, financial statements, and supporting schedules could omit important and required information or contain other misstatements. In addition, the District has an increased risk of errors due to fraud, such as theft and misappropriation, without effective internal control policies and procedures over cash.

Cause: The District's management lacked the finance and accounting expertise to establish effective internal control policies and procedures over cash receipts and disbursement and reconciling its cash and investments.

Recommendation: To help prevent and detect theft and misappropriation and to help establish an adequate internal control environment over cash and investments, the District should:

- Develop written policies and procedures that promote the proper separation of responsibilities and strong internal controls over cash and investments. Specifically, the responsibilities of preparing deposits, authorizing disbursements and withdrawals, and reconciling the bank accounts should be separated so that no one person can perform these responsibilities without another person's independent review.
- Ensure that monthly bank reconciliations include a comparison of the bank balances and activities reflected on the bank statements to what is recorded in its accounting records, and any discrepancies should be investigated, resolved, and recorded in the accounting records. Bank reconciliations should also contain evidence of an independent supervisor's review and approval.
- Require that vendor invoices are marked or stamped when paid to help prevent duplicate payments. Also, cash disbursements and invoices should be independently reviewed for accuracy prior to payment.

This finding is similar to prior-year finding 2009-04.

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San Carlos Campus
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Audit 2010

Responses to findings

Submitted by: Stephen Cullen, Ph.D.

May 16, 2016

2010-01

Gila Community College (GCC) is in the process of developing accurate and timely financial statements. GCC has contracted Heinfeld, Meech & Company in order to become current and will be compliant with their audits FY 2012 by the fall of 2016.

2010-02

Friends of Rim Country has provided unaudited financial statements to Gila Community College through year 2015. In addition, The Pinal Mountain Foundation for High Education has provided unaudited financial statements through 2015.

2010-03

The Gila Community College District Governing board passed fiscal policies dated August 28, 2012 in order to establish a policy for disclosing conflicts of interest involving governing board members. This finding is the same as noted in previous year (FY2009).

2010-04

Gila Community College administration is currently working with Heinfeld, Meech & Company to develop policies and procedures in order to address cash receipts, disbursements and reconciling its cash and investments. This effort began in January 2016.