

# Gila County Provisional Community College District (Gila Community College)

Annual Financial Report and  
Report on Internal Control  
and on Compliance

Year Ended June 30, 2013

A Report to the Arizona Legislature

Debra K. Davenport  
Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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## STATE OF ARIZONA

DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

## 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 have audited 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, 2013, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's responsibility for the financial statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement. Because of the matter described in the basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matter described in the basis for disclaimer of opinion paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinions on the District's governmental activities and general fund financial statements.

***Basis for disclaimer of opinion on the aggregate discretely presented component units***

The financial statements of the aggregate discretely presented component units as of and for the year ended June 30, 2013, and the related notes to financial statements have not been audited. The aggregate discretely presented component units consist of the District's foundations. We were neither engaged to audit, nor do we have the statutory authority and oversight to audit, these financial statements. The Pinal Mountain Foundation for Higher Education's financial statements and the Friends of Rim Country Gila Community College Foundation's financial statements, when aggregated, represent 100 percent of the total assets, liabilities, net position, revenues, and expenses of the District's aggregate discretely presented component units.

***Disclaimer of opinion***

Because of the significance of the matter described in the basis for disclaimer of opinion on the aggregate discretely presented component units paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units of the Gila County Provisional Community College District. Accordingly, we do not express an opinion on these financial statements.

***Basis for qualified opinions on the governmental activities and general fund financial statements***

Gila County Provisional Community College District had inadequate internal controls over its accounting system and had incomplete and inadequate accounting records for certain depreciable capital assets, program revenues, and expenses/expenditures. As a result of these matters, we were unable to obtain sufficient appropriate audit evidence to determine whether any adjustments to the amounts reported for certain depreciable capital assets, program revenues, and expenses/expenditures were necessary.

***Qualified opinions***

In our opinion, except for the effects of the matters described in the basis for qualified opinions on the governmental activities and general fund financial statements paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of Gila County Provisional Community College District as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, the District restated the financial statements for the year ended June 30, 2012, to correct misstatements in the valuation of its land and buildings. Our opinions are not modified with respect to this matter.

## **Other matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-4 and the budgetary comparison schedule—general fund on pages 14 and 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 February 28, 2018, 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 solely 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 the effectiveness of the District's 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

February 28, 2018





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- **Payson Campus:** PO Box 359 Payson, AZ 85547 Phone: (928) 468-8039 Fax: (928) 468- 8043
- **San Carlos Campus:** PO Box 152 San Carlos, AZ 85550 Phone: (928) 475-5981 Fax: (928) 475-5983

## 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, 2013. Please read it in conjunction with the District's financial statements, which immediately follow.

### Basic financial statements

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 presented, with a reconciliation shown between them.

The governmental fund balance sheet/statement of net position 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 focuses on near-term inflows and outflows of resources as well as the balances of spendable resources available at year-end.

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 Eastern Arizona College (EAC) to provide educational programs and services.

The District and 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 position on page 1 reflects the District's assets, liabilities, and net position. The statement of activities on page 3 presents the District's operations. Over time, increases or decreases in net position 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 position and the changes in net position for the years ended June 30, 2013 and 2012.

*Net position  
As of June 30, 2013 and 2012*

<b>Assets:</b>	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase/(decrease)</u>
Current assets	\$ 2,327,614	\$ 2,068,346	\$ 259,268
Noncurrent assets:			
Capital assets, net of accumulated depreciation	<u>5,908,508</u>	<u>8,222,965</u>	<u>(2,314,457)</u>
Total assets	<u>8,236,122</u>	<u>10,291,311</u>	<u>(2,055,189)</u>
 <b>Liabilities:</b>			
Other liabilities	1,855,932	1,700,079	155,853
Long-term liabilities	<u>29,275</u>	<u>43,239</u>	<u>(13,964)</u>
Total liabilities	<u>1,885,207</u>	<u>1,743,318</u>	<u>141,889</u>
 <b>Net position:</b>			
Net investment in capital assets	5,883,831	8,179,726	(2,295,895)
Unrestricted	<u>467,084</u>	<u>368,267</u>	<u>98,817</u>
Total net position	<u>\$ 6,350,915</u>	<u>\$ 8,547,993</u>	<u>\$ (2,197,078)</u>

*Changes in net position*  
*For the Years Ended June 30, 2013 and 2012*

## Significant variances

For the fiscal year ended June 30, 2013, the financial data presented above is for analysis and comparison of significant variances relative to assets, liabilities, net position, revenues, and expenses.

- Total assets at June 30, 2013, were \$8,236,122 consisting primarily of cash and investments of \$2,059,184 and capital assets, net of accumulated depreciation, of \$5,908,508. Capital assets, net of accumulated depreciation, decreased by \$2,314,457 primarily due to an adjustment in the valuation of land and buildings donated from Gila County during the prior year. Beginning balances were restated because the historical appraisal value came in at lower than the value recorded on the fiscal year 2012 financial statements. Also, the June 30, 2013, balance of the net investment in capital assets decreased because of this adjustment.
  - The total liabilities of \$1,885,207 were composed of current obligations for educational and general expenses and long-term liabilities for capital leases payable. The current obligations increased by \$138,305.
  - The increase in educational and general expenses of \$1,043,336 was primarily due to recording gross expenses recorded by EAC on behalf of the District that was not done in the prior year.
  - The increase in program revenues is primarily due to an increase in operating grants and contracts revenue. Charges for services increased by \$36,015.
  - The decrease in general revenues of \$7,618,798 is primarily due to capital contributions recorded in the prior year related to the donation of land and buildings by Gila County.

## **General fund budget**

The District's actual educational and general expenditures were \$1,776,167 less than budgeted amounts primarily due to an anticipated increase in these expenditures for tuition that was budgeted but not realized because it is earned and reported by EAC and then deducted from amounts owed to EAC for contracted services.

Total revenues were \$1,281,497 less than budgeted. The difference in budgeted compared to actual charges for services in the amount of \$1,527,407 was primarily due to tuition that was budgeted but not realized because tuition is earned and reported by EAC. 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 \$198,633 less than budgeted.

The District's actual beginning fund balance was \$12,036 less than budgeted.

Additional budgetary information can be found on pages 14 and 15 of this report.

## **Capital assets and debt administration**

**Capital assets.** The District's total investment in capital assets, net of accumulated depreciation, was \$5,908,508, which was composed of land, buildings and improvements, equipment, vehicles, and library books. This is a net decrease of \$2,314,457 from the prior year. The decrease can be attributed primarily to an appraisal that was done for Gila County's donation of land and buildings that came in lower than the value estimated and recorded on the District's financial statements in the prior year.

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 \$29,275 in capital lease long-term debt outstanding, \$14,028 due within one year. This represents a decrease of \$13,964, which can be attributed to the 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.

## **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 Senior Dean Dr. Stephen Cullen at (928) 425-8481.

**Gila County Provisional Community College District  
(Gila Community College)  
Governmental fund balance sheet/statement of net position  
June 30, 2013**

	<u>Balance sheet— general fund</u>	<u>Reconciliation (Note 7)</u>	<u>Statement of net position— governmental activities</u>
<b>Assets</b>			
Current assets:			
Cash and investments	\$ 2,059,184		\$ 2,059,184
Property taxes receivable	125,490		125,490
Accounts receivable	42,990		42,990
Due from other governments	99,950		99,950
Total current assets	<u>2,327,614</u>		<u>2,327,614</u>
Noncurrent assets:			
Capital assets, not being depreciated		\$ 1,210,000	1,210,000
Capital assets, net of accumulated depreciation		<u>4,698,508</u>	<u>4,698,508</u>
Total noncurrent assets	<u>5,908,508</u>		<u>5,908,508</u>
Total assets	<u>2,327,614</u>	<u>5,908,508</u>	<u>8,236,122</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	43,084		43,084
Due to other governments	1,812,848		1,812,848
Deferred revenues	103,940	(103,940)	
Current portion of long-term debt		14,028	14,028
Total current liabilities	<u>1,959,872</u>	<u>(89,912)</u>	<u>1,869,960</u>
Noncurrent liabilities:			
Long-term debt		15,247	15,247
Total noncurrent liabilities	<u>1,959,872</u>	<u>15,247</u>	<u>15,247</u>
Total liabilities	<u>1,959,872</u>	<u>(74,665)</u>	<u>1,885,207</u>
<b>Fund balance/net position</b>			
Fund balance:			
Unassigned	<u>367,742</u>	<u>(367,742)</u>	
Total fund balances	<u>367,742</u>	<u>(367,742)</u>	
Total liabilities and fund balance	<u>2,327,614</u>	<u>(442,407)</u>	
Net position:			
Net investment in capital assets, net of related debt		5,883,831	5,883,831
Unrestricted		<u>467,084</u>	<u>467,084</u>
Total net position	<u>\$ 6,350,915</u>	<u>\$ 6,350,915</u>	

See accompanying notes to financial statements.

**Gila County Provisional Community College District  
 (Gila Community College)  
 Statement of financial position—component units  
 June 30, 2013**

	<u>Pinal Mountain Foundation for Higher Education</u>	<u>Friends of Rim Country GCC, Inc.</u>
<b>Assets</b>		
Cash and investments	\$ 12,071	\$ 8,959
Total assets	<u>12,071</u>	<u>8,959</u>
<b>Liabilities</b>		
Total liabilities	-	-
<b>Net assets</b>		
Unrestricted	1,639	8,959
Permanently restricted	<u>10,432</u>	<u>8,959</u>
Total net assets	<u>12,071</u>	<u>8,959</u>
Total liabilities and net assets	<u>\$ 12,071</u>	<u>\$ 8,959</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 balance/statement of activities

Year ended June 30, 2013

	General fund	Reconciliation (Note 7)	Statement of activities— governmental activities
<b>Expenditures/expenses</b>			
Education and general	\$ 4,622,547	\$ 408,626	\$ 5,031,173
Debt service			
Principal retirement	26,684	(26,684)	
Interest on long-term debt	1,980		1,980
Capital outlay	<u>256,062</u>	<u>(256,062)</u>	
Total expenditures/expenses	<u>4,907,273</u>	<u>125,880</u>	<u>5,033,153</u>
<b>Program revenues</b>			
Charges for services	72,593		72,593
Operating grants and contracts	<u>760,027</u>		<u>760,027</u>
Total program revenues	<u>832,620</u>		<u>832,620</u>
Net program expenses	<u>4,074,653</u>	<u>125,880</u>	<u>4,200,533</u>
<b>General revenues</b>			
Property taxes	3,663,136	(16,473)	3,646,663
State appropriations	476,863		476,863
Investment earnings	1,367		1,367
Other	<u>345</u>		<u>345</u>
Total general revenues	<u>4,141,711</u>	<u>(16,473)</u>	<u>4,125,238</u>
<b>Other financing sources</b>			
Capital lease agreements	12,720	(12,720)	
Net change in fund balance	79,778	(79,778)	
Change in net position		(75,295)	(75,295)
<b>Fund balance (deficit)/net position</b>			
July 1, 2012, as restated	<u>287,694</u>	<u>6,138,246</u>	<u>6,426,210</u>
June 30, 2013	<u>\$ 367,742</u>	<u>\$ 5,983,173</u>	<u>\$ 6,350,915</u>

See accompanying notes to financial statements.

**Gila County Provisional Community College District  
(Gila Community College)  
Statement of activities—component units  
June 30, 2013**

	<u>Pinal Mountain Foundation for Higher Education</u>	<u>Friends of Rim Country GCC, Inc.</u>
<b>Revenues and support</b>		
Contributions	\$ 565	\$ 4,954
Revenues	15,262	3,046
Investment income		1
Total revenue	<u>15,827</u>	<u>8,001</u>
<b>Expenses</b>		
Awards and grants	5,900	620
General and administrative	210	
Fund-raising	<u>5,555</u>	
Total expenses	<u>11,665</u>	<u>620</u>
Changes in net assets	4,162	7,381
Net assets, beginning of year	<u>7,909</u>	<u>1,578</u>
Net assets, end of year	<u>\$ 12,071</u>	<u>\$ 8,959</u>

See accompanying notes to financial statements.

**Gila County Provisional Community College District  
(Gila Community College)  
Notes to financial statements  
June 30, 2013**

**Note 1 - Summary of significant accounting policies**

For the year ended June 30, 2013, the District implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

**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 units, the Pinal Mountain Foundation for Higher Education and the Friends of Rim Country GCC, Inc. (Foundations).

The Foundations are legally separate, tax-exempt organizations. They act primarily as fund-raising organizations that receive gifts and bequests, administers those resources and disburses payments to or on behalf of the District for scholarships and programs. Although the District does not control the timing or amount of receipts from the Foundations, the Foundations' restricted resources can be used only by or for the benefit of the District or its constituents. Consequently, the Foundations are considered components units of the District and are discretely presented in the District's financial statements.

For financial reporting purposes, the Foundations follow 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 Foundations' financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the District's respective counterpart financial statements. For financial reporting purposes, only the Foundations' 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 Friends of Rim Country GCC, Inc. has a June 30 year-end, and the Pinal Mountain Foundation for Higher Education has a July 31 year-end; however, the financial activity presented in the District's financial statements was obtained from this Foundation as of June 30.

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-

**Gila County Provisional Community College District  
(Gila Community College)  
Notes to financial statements  
June 30, 2013**

related functions; access to information relative to enrollments; and payment to adjunct faculty. EAC charges the District a fee of 24.75 percent of the total disbursements it processes.

District personnel are not directly employed by the District. The staff is 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 position 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.

The governmental fund balance sheet/statement of net position provides information about the assets, liabilities, and fund balance/net position of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net position is classified according to external donor restrictions or availability of assets to satisfy the District obligations. Net invested in capital assets represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Unrestricted net position includes all other resources, including those that have been designated by management 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 position are reported. Generally, revenues generated by the District, such as fees for certain courses and student services, along with operating and capital grants and contributions, are considered to be program revenues. Other revenues, 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 operating fund.

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 fund 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 position and the statement of activities, are presented using the economic resources measurement focus and the accrual basis of accounting.

# **Gila County Provisional Community College District**

## **(Gila Community College)**

### **Notes to financial statements**

#### **June 30, 2013**

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.

#### **C. Cash and investments**

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

#### **D. Capital assets**

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

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

	<b>Capitalization threshold</b>	<b>Depreciation method</b>	<b>Estimated useful life</b>
Land	\$1	Not applicable	Not applicable
Buildings	\$5,000	Straight-line	15-40 years
Improvements other than buildings	\$5,000	Straight-line	5-25 years
Equipment	\$5,000	Straight-line	5-15 years
Library materials	\$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 is composed 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, 2013**

**G. Fund balance classifications**

Fund balance of the governmental fund is reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications. Although the District did not use all of the fund balance classifications during the current year, descriptions of each classification and the District's policies follows.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws or regulations.

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the District's Governing Board, which is the highest level of decision-making authority within the District. The constraints placed on committed fund balances can only be removed or changed by the Board.

Assigned fund balances are resources constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned amounts represent intended uses established by the Board or a management official delegated that authority by formal Board action.

The unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not reported in the other classifications.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, the District will use restricted fund balance first. For the disbursement of unrestricted fund balances, the District will use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

**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, 2013, the carrying amount of the District's deposits was \$2,006,564, and the bank balance was \$2,020,017. The District does not have a formal policy with respect to custodial credit risk of deposits. At June 30, 2013, the District's deposits were entirely covered by federal depository insurance or by collateral held by the pledging financial institution.

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**Investments**—The District's investments at June 30, 2013, were as follows:

<b>Investment type</b>	<b>Amount</b>
County Treasurer's investment pool	\$52,620

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**—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The District does not have a formal policy with respect to credit risk. At June 30, 2013, credit risk for the District's investments was as follows:

<b>Investment type</b>	<b>Rating</b>	<b>Rating agency</b>
County Treasurer's investment pool	Unrated	Not applicable

**Interest rate risk**—Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The District does not have a formal policy regarding interest rate risk for investments. At June 30, 2013, the District had the following investments:

<b>Investment type</b>	<b>Average maturity</b>
County Treasurer's investment pool	1.2 years

A reconciliation of deposits and investments to amounts shown on the statement of net position follows:

Deposits and investments:		Statement of net position:	
Amount of deposits	\$2,006,564	Cash and investments	\$2,059,184
Amount of investments	<u>52,620</u>		
Total	<u>\$2,059,184</u>	Total	<u>\$2,059,184</u>

**Note 3 - Due from other governments**

Due from other governments at June 30, 2013, as reported in the statement of net position are composed of the following:

Due from the federal government	\$ 4,100
Due from Eastern Arizona College	<u>95,850</u>
Total	<u>\$99,950</u>

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**Note 4 - Capital assets**

Capital asset activity for the year ended June 30, 2013, was as follows:

	<b>Balance July 1, 2012, as restated (see Note 10)</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2013</b>
Capital assets not being depreciated:				
Land	<u>\$ 1,210,000</u>	_____	_____	<u>\$ 1,210,000</u>
Total capital assets not being depreciated	<u>1,210,000</u>	_____	_____	<u>1,210,000</u>
Capital assets being depreciated:				
Buildings and improvements	4,625,742			4,625,742
Equipment	916,021	\$ 46,025	\$11,625	950,421
Vehicles	144,340	5,989		150,329
Library books	<u>342,200</u>	<u>16,181</u>		<u>358,381</u>
Total capital assets being depreciated	<u>6,028,303</u>	<u>68,195</u>	<u>11,625</u>	<u>6,084,873</u>
Less accumulated depreciation for:				
Buildings and improvements	(81,202)	(115,644)		(196,846)
Equipment	(742,224)	(68,793)	11,625	(799,392)
Vehicles	(143,240)	(1,100)		(144,340)
Library books	<u>(210,565)</u>	<u>(35,222)</u>		<u>(245,787)</u>
Total accumulated depreciation	<u>(1,177,231)</u>	<u>(220,759)</u>	<u>11,625</u>	<u>(1,386,365)</u>
Total capital assets, net of accumulated depreciation	<u>4,851,072</u>	<u>(152,564)</u>		<u>4,698,508</u>
Total capital assets, net	<u>\$ 6,061,072</u>	<u>\$(152,564)</u>	<u>\$</u>	<u>\$ 5,908,508</u>

**Note 5 - Due to other governments**

At June 30, 2013, the District had reported a total amount due to other governments of \$1,812,848. A portion of this liability, in the amount of \$1,457,028, is owed to EAC for providing educational programs and services during the year. The remaining \$355,820 is owed to the State of Arizona related to erroneous sales tax distributions in prior years.

**Note 6 - Long-term liabilities**

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2013:

	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2013</b>	<b>Due within one year</b>
Capital leases payable	<u>\$43,239</u>	<u>\$12,720</u>	<u>\$26,684</u>	<u>\$29,275</u>	<u>\$14,028</u>
Total long-term debt	<u>\$43,239</u>	<u>\$12,720</u>	<u>\$26,684</u>	<u>\$29,275</u>	<u>\$14,028</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

**Gila County Provisional Community College District  
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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	\$120,000
Equipment	41,845
Less: accumulated depreciation	<u>32,032</u>
Carrying value	<u>\$129,813</u>

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2013:

Year ending June 30:	
2014	\$14,760
2015	6,113
2016	4,382
2017	2,896
2018	<u>2,358</u>
Total minimum lease payments	30,509
Less: amount representing interest	<u>1,234</u>
Present value of net minimum lease payments	<u>\$29,275</u>

## Note 7 - Reconciliations

The reconciliation of the governmental fund balance sheet to the statement of net position at June 30, 2013, was as follows:

Fund balances—governmental fund	\$ 367,742
Amounts reported for governmental activities in the statement of net position are different because:	
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the governmental fund.	103,940
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	5,908,508
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.	<u>(29,275)</u>
Net position of governmental activities	<u>\$6,350,915</u>

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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, 2013, was as follows:

Net change in fund balance (deficit)—governmental fund	\$ 79,778
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.	(16,473)
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	68,195
Depreciation expense	<u>(220,759)</u>
Net capital outlay	(152,564)
Issuance of capital leases provide current financial resources to governmental funds, but the issuance creates long-term liabilities in the statement of net position.	(12,720)
Repayment of long-term debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	<u>26,684</u>
Change in net position of governmental activities	<u>\$ (75,295)</u>

**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 - Discretely presented component units**

The District's discretely presented component units are composed of Pinal Mountain Foundation for Higher Education and Friends of Rim Country GCC, Inc.

**Summary of significant accounting policies**

Nature of activities—Pinal Mountain Foundation for Higher Education and Friends of Rim Country GCC, Inc. (Foundations) both provide funding to assist students of Gila Community College by providing scholarships and other services. The Friends of Rim Country GCC, Inc. also provides assistance to District alumni. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial statement presentation—Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, the Foundation is required to report

**Gila County Provisional Community College District  
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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 received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. Contributions are recorded as income in the period received.

**Unrestricted net assets**—Unrestricted net assets are those currently available at the discretion of the board of directors for use in the Foundation's operations, in accordance with its bylaws.

**Tax-exempt status**—The Foundations qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are not subject to income taxes. The Foundations are not private foundations and contributions to the Foundations qualify as charitable deductions by the contributor.

**Note 10 - Prior period adjustment**

The July 1, 2012, government-wide net position and the fund balance of the general fund do not agree to the prior year financial statements due to the correction of errors in asset and liability accounts and the use of an estimate to determine the value of land and buildings donated by Gila County. The land and buildings were appraised in May 2016, requiring a decrease to the estimated value.

	<b>Statement of activities</b>	<b>General fund</b>
Net position/fund balance, June 30, 2012, as previously reported	\$ 8,547,993	\$247,854
Difference in appraised and recorded value on donated land and buildings, net of accumulated depreciation	(2,161,893)	
Correction of errors in asset and liability accounts	40,110	40,110
Net position/fund balance, July 1, 2012, as restated	<u>\$ 6,426,210</u>	<u>\$287,694</u>

**Note 11 - Subsequent Events**

In fiscal year 2014, the District began construction on a modular building to house the Rim Country Cosmetology Academy. The total cost of the project was \$310,699 and the modular and program equipment were primarily financed through intergovernmental agreements with Gila County and the Northern Arizona Vocational Institute of Technology (NAVIT). The NAVIT IGA requires the District to repay \$63,632 of the support provided through fiscal year 2014.

The District executed an installment purchase for lamps and ballasts for energy efficiency in May 2014. The amount will be repaid in October 2016.

In fiscal year 2015, the District made improvements to its parking lots in the amount of \$80,439.

**Gila County Provisional Community College District  
(Gila Community College)**  
**Required supplementary information**  
**Budgetary comparison schedule—general fund**  
**Year ended June 30, 2013**

	<b>Original and final budget</b>	<b>Actual amounts</b>	<b>Variance with final budget</b>
<b>Revenues:</b>			
Property taxes	\$ 3,654,828	\$ 3,663,136	\$ 8,308
State appropriations	491,000	476,863	(14,137)
Charges for services	1,600,000	72,593	(1,527,407)
Operating grants and contracts	310,000	760,027	450,027
Investment earnings	200,000	1,367	(198,633)
Other		345	345
Total revenues	<u>6,255,828</u>	<u>4,974,331</u>	<u>(1,281,497)</u>
<b>Expenditures:</b>			
Education and general	6,398,714	4,622,547	1,776,167
Debt service			
Principal retirement		26,684	(26,684)
Interest on long-term debt		1,980	(1,980)
Capital outlay	<u>171,422</u>	<u>256,062</u>	<u>(84,640)</u>
Total expenditures	<u>6,570,136</u>	<u>4,907,273</u>	<u>1,662,863</u>
Excess (deficiency) of revenues over expenditures	(314,308)	67,058	381,366
<b>Other financing sources:</b>			
Capital lease agreements		12,720	12,720
Net change in fund balance (deficit)	(314,308)	79,778	394,086
<b>Fund balance (deficit):</b>			
July 1, 2012, as restated	<u>300,000</u>	<u>287,964</u>	<u>(12,036)</u>
June 30, 2013	<u>\$ (14,308)</u>	<u>\$ 367,742</u>	<u>\$ 382,050</u>

See accompanying note to budgetary comparison schedule.

**Gila County Provisional Community College District  
(Gila Community College)  
Required supplementary information  
Note to budgetary comparison schedule—general fund  
June 30, 2013**

**Note - 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 Eastern Arizona College (EAC).

The District's budget is prepared on an accounting 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 the cash basis, and charges for services presented on the general fund's budgetary comparison schedule, which represents tuition and fees earned and reported by EAC and which are not reported in the District's financial statements.

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**STATE OF ARIZONA**

**DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL**

**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 have audited 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, 2013, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregated discretely presented component units, the foundations, as described in our report on the District's financial statements. These financial statements collectively comprise the District's basic financial statements. 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, and have issued our report thereon dated February 28, 2018. However, the financial statements of the aggregate discretely presented component units were not audited. Our opinions were modified to report a disclaimer of opinion on the aggregate discretely presented component units and qualified opinions on the financial statements of the governmental activities and general fund.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2013-01, 2013-02, 2013-03, 2013-05, 2013-06, 2013-08, and 2013-09 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2013-04 and 2013-07 to be significant deficiencies.

## **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying schedule of findings and recommendations as items 2013-04, 2013-07, and 2013-09.

## **Gila County Provisional Community College District's response to findings**

Gila County Provisional Community College District's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. 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

February 28, 2018



# SCHEDULE OF FINDINGS AND RECOMMENDATIONS

## Financial statement finding

**2013-01**

The District should improve its accounting system and recordkeeping

**Criteria**—The District must issue accurate, complete, and timely financial statements to satisfy state audit and reporting requirements and to demonstrate accountability to the public and public agencies from which the District receives funding. Therefore, the District has the responsibility to establish and maintain effective internal controls over financial reporting, such as keeping a complete and updated accounting system and adequate accounting records, to help ensure that it can prevent and detect the potential loss, theft, or misuse of public monies and prepare reliable and timely financial information for its stakeholders.

**Condition and context**—The District did not have adequate internal controls for maintaining a properly designed accounting system and accounting records. Specifically, the following deficiencies were noted:

- **Accounting system was not adequately controlled**—The District kept the majority of its accounting records in hardcopy form with no ledger other than manual check registers to initially record transactions as they occurred. The accounting records were not entered into the accounting system until after year-end by the District's contracted financial statement preparer. Further, many of the transactions were not recorded in detail but were instead recorded at a summarized level, and accordingly, information entered into the accounting system could not be reconciled to the hardcopy accounting records. In addition, the District's contracted educational services provider maintained an accounting on its system of some transactions related to the District's governmental grants and contracts; however, these transactions were never reconciled to the District's accounting records and were not recorded in the District's accounting system until after year-end.
- **Inadequate recordkeeping**—The District reported approximately \$832,600 in program revenues and over \$5 million in total expenses for the year. However, the District did not prepare and maintain adequate accounting records to support approximately \$182,600 and \$119,300 it reported for program revenues and expenses, respectively. The District lacked policies and procedures for preparing and maintaining detailed accounting records. For example, the District did not control cash receipts for book sales and course-related fees the District collected from students and employees; therefore, the District was unable to reconcile these cash receipts to detailed accounting records to help ensure all cash receipts were properly collected, recorded, and deposited. In addition, the District did not have policies and procedures for identifying, tracking, and reporting program revenues from grants and contracts with other parties to help ensure that the revenues belonged to the District, were recorded when earned, and were spent in the proper year and for the purpose intended by the grant or contract.
- **Charges to students for books and courses**—Charges to students for books and courses were paid on behalf of students by other parties, either in-whole or in-part, in the form of scholarships. However, the fees charged for courses did not always agree to the District's board-adopted fee schedule, and the records did not reflect reasons why an amount other than the established fee was charged. The District also recorded book purchases and sales of approximately \$41,700 and \$46,000, respectively,

but kept inadequate records to support why it purchased books and then resold them to students and employees when its college foundations had contracts with a vendor to operate an online bookstore for the District.

- **Scholarship expenses and allowances**—The District did not have written policies and procedures for preparing accounting records for the payments of scholarships applied to students' charges for books and course-related fees paid on behalf of students by other parties, and ensuring that revenues from charges to students for books and courses were reported net of scholarship allowances.

**Effect**—The District's financial statements were not reliable because the accounting records for certain revenues and expenses/expenditures were not accurate and complete. In addition, the District was at risk of exposing public monies to potential loss, theft, or misuse.

**Cause**—The District's management lacked the finance and accounting expertise to establish and maintain internal controls for maintaining a properly designed accounting system and records.

**Recommendation**—To help ensure that the District maintains an adequate accounting system and records, the District should:

- Employ or contract with persons who have the necessary finance and accounting expertise to develop and implement written policies and procedures for financial reporting and who will also perform the ongoing recordkeeping and maintenance of the accounting system; prepare, organize, and maintain all supporting invoices and other records; and prepare appropriate journal entries when necessary.
- Evaluate its accounting system against accounting and reporting requirements and ensure that the system is designed to meet its needs or seek alternative solutions.
- Develop and implement written policies and procedures for keeping adequate accounting records; recording transactions into the accounting system in a timely manner, including transactions pertaining to the District recorded in the contracted educational services provider's accounting system; and reconciling these transactions to the District's accounting records. These policies and procedures should also include guidance for evaluating the billing invoices of the contracted educational services provider 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 for preparing, maintaining, and reconciling detailed accounting records for the distinct types of transactions it processes to amounts recorded on the accounting system. These policies and procedures should specifically address numerically controlling and reconciling cash receipts for course-related fees charged to students. The policies and procedures should also require that the District's board-adopted fee schedule be followed for all fees charged to the public. Finally, policies and procedures should require that the accounting records for disbursements and expenses be sufficiently detailed to support that they are proper district expenses.
- Require district management to evaluate the appropriateness of its purchases and sales of books to students and employees in light of its college foundations having contracts with vendors to provide an online bookstore for the District and whether it may be more appropriate for students to purchase their own books directly from the bookstore. If this activity is deemed appropriate, the District should develop and implement written policies and procedures to help ensure that the accounting records for all book purchases support that they are proper district expenses.
- Develop and implement written policies and procedures to prepare accounting records for applying scholarship payments to students' charges for books and courses and to help ensure that revenues and expenses related to scholarships are properly supported, reflected in the accounting records by student, and provided to the contracted educational services provider. These policies and procedures should also ensure that revenues from charges to students for books and courses are reported net of scholarship allowances.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2012-01.

## 2013-02

### The District should develop detailed financial statement preparation policies and procedures

**Criteria**—The District has the responsibility to establish effective internal controls over financial reporting and should have policies and procedures to help ensure that it prepares accurate and complete financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

**Condition and context**—The District did not have written policies and procedures over its financial statement preparation process, and did not have an adequate process for compiling its financial statements to ensure that they were accurate, complete, and prepared in accordance with GAAP. Consequently, the District's financial statements contained several errors. Specifically, the District:

- Underreported liabilities for governmental activities and the general fund by over \$355,800 when making a prior period adjustment to increase beginning fund balance/net position and reduced amounts due to other governments with no documentation supporting that the liability was paid, forgiven, or otherwise no longer outstanding and due.
- Incorrectly classified for governmental activities and the general fund over \$416,000 of revenues from operating grants and contracts as charges for services.
- Incorrectly recognized for governmental activities and the general fund revenues of \$15,000 from operating grants and contracts as earned based on when they were collected during a subsequent year when the revenue was earned during the current year and should have been reported. Operating grants and contracts receivable were also understated for governmental activities and the general fund as a result of this error.
- Incorrectly reported for governmental activities and the general fund nearly \$28,000 of amounts due from nongovernmental entities renting classroom space as amounts due from other governments rather than other receivables.
- Incorrectly recorded for governmental activities and the general fund nearly \$31,000 in property taxes that were revenues earned in prior years.
- Understated long-term liabilities for governmental activities and related note disclosures by approximately \$12,700 as a result of misclassifying capital leases as operating leases.

**Effect**—The District corrected the errors described above. However, we were unable to determine that the District's financial statements were free of material misstatement because the accounting records were inadequate, as described in items 2013-01, 2013-03, and 2013-04.

**Cause**—The District's management lacked the finance and accounting expertise to establish and maintain effective internal controls over the preparation of its financial statements.

**Recommendation**—To help ensure that the District's financial statements are complete, accurate, and follow GAAP, the District should:

- Employ or contract with persons who have the necessary finance and accounting expertise to develop and implement written comprehensive policies and procedures over financial statement preparation, including instructions for recording transactions into the accounting system; preparing year-end closing journal entries; and a detailed process for compiling and reviewing the financial statements. These procedures should include detailed instructions for obtaining information from the accounting system, including the contracted educational services provider, and preparing the notes to the financial statements, required supplementary information, and supporting schedules.
- Require a person with finance and accounting expertise to review and approve all journal entries, supporting schedules and reconciliations, and the annual financial report prior to submitting it for audit.
- Develop and implement written policies and procedures for compiling the financial information of the District's college foundations. These policies and procedures should include an annual accounting of the benefits and economic resources it receives from its foundations, such as monetary or capital donations, as well as the scholarships awarded to its students.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

## 2013-03

**The District should establish policies and procedures to report and maintain stewardship over its capital assets**

**Criteria**—The District should maintain effective internal control policies and procedures to control, safeguard, record, and accurately report its capital assets in its financial statements.

**Condition and context**—A significant portion of the District's total assets, approximately \$5.9 million, or 72 percent, consists of capital assets. However, the District did not have adequate internal control policies and procedures for ensuring that its capital assets were properly controlled, safeguarded, and accurately recorded in its accounting records and financial statements. The District adjusted and restated its beginning balances for capital assets and net position by over \$2.1 million for land and buildings that were overvalued when donated to the District in the prior year. In addition, the District did not have adequate accounting records to support approximately \$269,600 of capital assets, consisting primarily of equipment items and vehicles, included on its capital assets list and reported in its financial statements. Therefore, we were unable to verify whether the balances reported for capital assets, net of accumulated depreciation, were accurate and complete. Specifically, the District did not:

- Have written policies and procedures for controlling, safeguarding, and recording its capital assets in its accounting records and financial statements.
- Perform a physical inventory of its capital assets at least once every 2 years that was reconciled to the capital asset list at June 30. The last physical inventory was performed during fiscal year 2010, and the documentation consisted of a handwritten notepad listing of capital assets by description, but lacked information necessary to reconcile the inventory results to the capital asset list, such as the items' serial or tag numbers and locations.
- Include in its capital asset list all necessary information for each capital asset, such as the acquisition value, tag number, serial number, specific location (i.e., campus, building, and room), and source of funding if funded with federal, state, or local grants.
- Ensure that all equipment and vehicles were tagged or otherwise identified as district property.

- Reconcile current-year capital additions to current-year capital outlay expenditures.
- Consistently depreciate capital assets based on the estimated useful lives established by the District's existing practices.
- Prepare disposal forms for all capital asset disposals that document written approval was obtained prior to disposing of capital assets and the approved manner for how the capital asset was to be disposed. The District used handwritten notepad papers to indicate that capital assets were to be removed from the capital asset list.
- Review and update its capital asset list for any damaged or obsolete capital assets no longer in use.

**Effect**—The District's capital asset list was not complete and accurate. In addition, the District's capital assets were exposed to potential loss, theft, or misuse.

**Cause**—The District did not have written policies and procedures over capital asset reporting and stewardship. The District's management lacked the finance and accounting expertise to establish and maintain internal controls over its capital assets.

**Recommendation**—To help ensure that the District's capital assets are properly recorded and safeguarded against loss, theft, or misuse, the District should:

- Develop and implement written policies and procedures for controlling, safeguarding, and reporting capital assets in its accounting records and financial statements. Policies and procedures should include detailed steps for performing and documenting a physical inventory; identifying and safeguarding equipment and vehicles; and capitalizing, depreciating, and disposing of capital assets.
- Perform a physical inventory of capital assets at least once every 2 years and reconcile the results to the capital asset list at June 30, updating the list as appropriate. Inventory documentation should include sufficient detail on the capital assets inventoried, such as each capital asset's description, serial or tag number, and specific location, to reconcile the inventory results to the capital asset list.
- Maintain a capital asset list that includes all necessary information for each capital asset, such as the acquisition value, tag number, serial number, specific location (i.e., campus, building, and room), and source of funding if funded with federal, state, or local grants. Update the capital asset list annually for current-year additions and deletions, physical inventory results, and any items identified as being damaged, obsolete, or no longer in use.
- Tag or otherwise identify all equipment and vehicles as district property.
- Reconcile current-year capital additions to current-year capital outlay expenditures to help ensure that capital assets have been added to the capital assets list for capital assets that were acquired through purchase, donation, or long-term financing.
- Follow established estimated useful life practices when allocating depreciation to capital assets and perform an independent review of depreciation calculations for accuracy.
- Prepare a disposal form for each capital asset removed from the capital asset list that includes documentation that supervisory approval was obtained prior to the capital asset's disposal and the approved manner for the capital asset's disposal.
- Review the capital asset list at least annually for any damaged or obsolete capital assets no longer in use and update the list accordingly.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2012-01.

## 2013-04

### The District should establish internal controls over its credit cards

**Criteria**—The District should maintain effective internal control policies and procedures for district credit card purchases to reduce its risk of fraud, waste, or abuse and to help ensure that the public monies it spends are for an authorized district purpose in accordance with Arizona Revised Statutes §35-301 and the Arizona Constitution, Article IX, Section 7. Additionally, the District should have effective internal control policies and procedures to help ensure that the accounting records for district credit card transactions are reconciled for completeness, supported by adequate documentation, and reviewed and approved for appropriateness.

**Condition and context**—The District did not have internal control policies and procedures sufficient to reduce its risk of fraud, waste, or abuse for the public monies that it spent using district credit cards. In addition, the District did not have adequate internal control policies and procedures to help ensure that the accounting records related to credit card transactions were reconciled for completeness, adequately supported by documentation, and reviewed and approved for appropriateness. Specifically, the District had credit cards from various banks and retailers for which it did not properly control access, establish purchase limits and guidelines for allowable purchases and use, and specify the documentation to be prepared and retained. Credit card transactions totaled more than \$48,400 during the year with expenses for various retailers and organizations for books, supplies, fuel, food, travel, memberships and events, and late fees. However, most of these transactions did not have sufficient documentation to support that they were for an authorized district purpose. In addition, we were unable to perform sufficient auditing procedures to determine whether the accounting records for the District's credit card transactions were complete and properly reflected in the financial statements.

**Effect**—There is an increased risk of fraud, waste, and abuse and potential noncompliance with state laws governing the use of public monies may not be prevented or detected by management if purchases made through the District's credit cards are not adequately supported by documentation and reviewed and approved.

**Cause**—The District lacked written policies and procedures for using its credit cards. Also, the District's management lacked the expertise to establish and maintain effective internal controls for credit card purchases and to ensure that the accounting records related to credit card transactions were reconciled for completeness, adequately supported by documentation, and reviewed and approved for appropriateness.

**Recommendation**—To help reduce the risk of fraud, waste, and abuse related to district credit card purchases, the District should develop and implement written policies and procedures for these purchases and limit the number and type of credit cards used. Specifically, the District should:

- Establish guidelines for allowable purchases and use, and specify the documentation to be prepared and retained.
- Ensure that access to credit cards is controlled and that purchases are made only by authorized cardholders.
- Prepare and maintain accounting records related to credit card transactions, such as credit card statements, purchase logs, purchase receipts, and other documentation. Sufficiently document all credit card purchases to demonstrate that they are for an authorized district purpose.
- Perform a reconciliation of credit card statement purchases and posted transactions to documentation at least monthly, being alert for potential fraudulent transactions.

- Establish systematic controls, including transaction limits, monthly spending limits, and other blocks and controls for certain purchases, such as prohibiting purchases of alcohol or requiring the vehicle and mileage to be recorded for fleet and fuel cards. Such controls should prohibit credit card use for the purchase of negotiable instruments such as travelers' or cashiers' checks, money orders, and gift cards, and the withdrawal of cash from automated teller machines or other sources.
- Require each cardholder to sign an agreement before or at the time the card is issued to acknowledge his or her responsibilities and agree to abide by district policies and procedures. The agreement should outline the consequences for misusing the card.
- Promptly terminate credit cards held by cardholders who leave the District's employment.
- Ensure that credit cards are not used to circumvent competitive purchasing policies and procedures.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

## 2013-05

### The District should improve controls over bank accounts and cash-handling activities

**Criteria**—To demonstrate its fiscal accountability to the public and public agencies from which the District receives funding and to help ensure that it can prevent and detect the potential loss, theft, or misuse of public monies, the District should maintain effective internal control policies and procedures over its bank accounts and cash-handling activities.

**Condition and context**—The District's balances for cash and investments comprised over \$2 million, or 25 percent of total assets. Additionally, the District processed a significant amount of cash receipts and disbursements during the year. However, the District did not have adequate internal control policies and procedures over its bank accounts and cash-handling activities. For example, the same person performed many responsibilities over these areas without an independent review, which could make monies more susceptible to potential loss, theft, or misuse. Specifically, the District did not:

- Have written policies and procedures for handling cash receipts and disbursements, including making electronic transfers, payments, and withdrawals from bank accounts, and maintaining the records and documentation that should be prepared to process these transactions.
- Maintain copies of authorizing signatory cards for its bank accounts.
- Separate the responsibilities of collecting, recording, and depositing cash receipts; initiating and approving disbursements, withdrawals, and transfers; and reconciling bank accounts. One person was responsible for performing these duties without another person's independent review.
- Have procedures to control electronic payments and electronic transfers of funds between accounts.
- Reconcile all bank accounts to the applicable check registers, cash receipt logs, and other accounting records at least monthly, resolving differences in a timely manner and adjusting the accounting records as appropriate. In addition, the District did not perform monthly reconciliations of its monies held with the County Treasurer. Also, the District did not properly adjust its accounting records for discrepancies or reconciling items until after year-end.

**Effect**—The District was at risk of exposing public monies to potential loss, theft, or misuse.

**Cause**—The District did not have written policies and procedures for managing and reconciling its bank accounts and properly handling and safeguarding cash. Also, the District's management lacked the expertise to establish and maintain effective internal controls over these areas.

**Recommendation**—To demonstrate its fiscal accountability to the public and public agencies from which the District receives funding and to help ensure that it can prevent and detect the potential loss, theft, or misuse of public monies, the District should develop and implement written policies and procedures over its bank accounts and cash-handling activities that promote the proper separation of responsibilities. Specifically, the District should:

- Establish policies and procedures for handling cash receipts and disbursements, including making electronic transfers, payments, and withdrawals from bank accounts. Policies and procedures should also outline the records and documentation that should be prepared and maintained for processing these transactions, including evidence of a review and approval by a person who is independent of their preparation.
- Maintain copies of authorizing signatory cards for its bank accounts.
- Separate the responsibilities of collecting, recording, and depositing cash receipts; making disbursements, withdrawals, and transfers; and reconciling the bank accounts so that no one person can perform these responsibilities without another person's independent review.
- Develop procedures for controlling electronic payments and electronic transfers of funds between accounts and require a daily, or at least weekly, independent review and approval of bank account activity and these transactions.
- Perform and document monthly bank and investment account reconciliations for all accounts that include a comparison of the bank and investment account balances and activities reflected on the statements to what is recorded in the detailed accounting records. Review, investigate, resolve, and record any discrepancies in the accounting records in a timely manner. Bank and investment account reconciliations should also contain evidence of a review and approval by someone who is independent of the preparer.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2012-04.

## 2013-06

### The District should establish internal controls for managing its accounting system

**Criteria**—Logical access and change management controls help protect the District's system and data from unauthorized or inappropriate access or use, manipulation, damage, or loss. In addition, periodically performing system and data backups helps ensure that the District's system and data can be recovered in the event of a disaster, system or equipment failure, or other interruption. Therefore, the District should have effective internal control policies and procedures for managing access and changes to its system and data as well as backing up its system and data.

**Condition and context**—The District used an off-the-shelf software package as its accounting system, which did not have the capability of allowing the District to assign users' logical access in accordance with their job responsibilities to properly separate duties for processing various transactions. In addition, system audit logs designed to monitor user activity and system edit checks designed to help prevent unreasonable data or unbalanced transactions from being input into the system either did not exist or had been disabled. Further, the District did not have internal control policies and procedures for performing backups of its system and data.

**Effect**—There is an increased risk that the District may not prevent or detect unauthorized or inappropriate access or use, manipulation, damage, or loss of its system and data.

**Cause**—The District did not have written policies and procedures for managing its accounting system. Also, the District's management lacked the expertise to establish effective internal control policies and procedures over its accounting system and data.

**Recommendation**—To help prevent and detect unauthorized or inappropriate access or use, manipulation, damage, or loss to its systems and data, the District should develop and implement written policies and procedures that include:

- Reviewing and monitoring users' key activity.
- Enabling system controls, such as edit checks, if practicable, or instituting an independent review of information input into the system for reasonableness and accuracy.
- Performing backups of its system and data on a periodic basis.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2012-01.

## 2013-07

### The District should establish internal controls over purchasing

**Criteria**—The District spends a significant amount of public monies, including monies from federal, state, and other intergovernmental grants and contracts, to acquire goods and services. To follow best practices and to help comply with grants and contracts that have requirements to use competitive purchasing methods, the District should establish policies and procedures designed to help ensure that the District uses competitive purchasing methods when acquiring goods and services so it receives the best possible value for public monies it spends.

**Condition and context**—For purchases of goods and services with six vendors totaling over \$94,000 for the year, the District did not maintain adequate documentation to support that competitive purchasing procedures were used to ensure that the District received the best possible value for the monies it spent.

**Effect**—The District did not always use competitive purchasing procedures when acquiring goods and services. This could have resulted in purchases made and contracts entered into that were not advantageous to the District.

**Cause**—The District did not have written policies and procedures and monitor district purchases to help ensure that employees consistently used competitive purchasing procedures.

**Recommendation**—To help ensure the District protects the public interest and ensure it receives the best value for goods and services it purchases or for which it contracts, the District should ensure that its detailed policies and procedures for purchasing include:

- Obtaining competitive sealed bids or proposals, as appropriate, for all purchases of construction, materials, and services exceeding the District's competitive bid threshold.

- Preparing and maintaining 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 competitive bid and vendor selection process. This should include supporting documentation justifying the vendor selection if the vendor with the lowest price quotation is not selected. Retain bid files in accordance with federal and state regulations.
- Obtaining written contracts for all services that include the scope of the work to be performed, the amounts to be charged to the District, and other pertinent contract terms. Written contracts should be obtained prior to the vendor's commencement of the work and the District's payment to the vendor.
- Requiring a minimum number of vendors to be contacted for oral and written price quotations and document vendors contacted and their reasons for not providing quotations, if applicable.
- Establishing criteria for sole source determinations and require that documentation be prepared that clearly justifies there are no reasonable alternative sources prior to acquiring goods and services when a sole source is used for procurement.
- Developing a change-order process for documenting and obtaining management's or the governing board's approval, as appropriate, when there are significant increases to the amounts originally contracted for goods and services.
- Training individuals involved in purchasing on the policies and procedures to follow.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

## 2013-08

### District management should improve reporting to governing board

**Criteria**—The District's governing board needs relevant, reliable information, both financial and nonfinancial, relating to external as well as internal events, to fulfill its oversight responsibilities. Therefore, it is essential that the District's management has effective internal control policies and procedures in place to help ensure that it provides accurate, complete, and regular financial reports and communications to the governing board, including reports of any known, suspected, or alleged fraud and any violations of laws, regulations, and policies and procedures.

**Condition and context**—The District did not have adequate policies and procedures to help ensure that its financial reporting and communications to the governing board were accurate, complete, and regularly occurring and included reports of any known, suspected, or alleged fraud and any violations of laws, regulations, and policies and procedures. While district management provided regular financial reports to the governing board, those financial reports were not complete because they did not include the financial activities for all district bank accounts.

**Effect**—There is an increased risk that the District's governing board may not be able to effectively exercise its oversight responsibilities without accurate, complete, and timely information.

**Cause**—The District lacked written policies and procedures for compiling and reporting information to the governing board and for ensuring that the information reported is accurate, complete, and regularly occurring. Also, the District's management lacked the finance and accounting expertise necessary to establish and maintain effective internal controls.

**Recommendation**—To help ensure the District's governing board gets relevant, reliable financial and nonfinancial information relating to external and internal events, to fulfill its oversight responsibilities, the

District should develop and implement internal control policies and procedures for providing accurate, complete, and regular financial reports and communications to the governing board. Such communication should include timely reports of the financial activities of all district bank accounts; any known, suspected, or alleged fraud; and any violations of laws, regulations, and policies and procedures.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

## 2013-09

### The District should issue timely audited financial statements

**Criteria**—In accordance with Arizona Revised Statutes (A.R.S.) §41-1279.07(C), the District is required to issue audited financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) within 9 months after fiscal year-end. Additionally, the District is required to issue its annual budgeted expenditure limitation report based on those financial statements within 9 months after fiscal year-end.

**Condition and context**—The District did not issue its financial statements until over 4 years after fiscal year-end because of internal control weaknesses described in items 2013-01 through 2013-05.

**Effect**—The District's financial statements were not issued in a timely manner as required by A.R.S. §41-1279.07(C). In addition, the District's budgeted expenditure limitation report was not issued within 9 months after fiscal year-end.

**Cause**—The District lacked an adequate accounting system, adequate internal controls for processing transactions and recordkeeping, written policies and procedures over its financial statement preparation, and management with finance and accounting skills and expertise.

**Recommendation**—To help ensure that the District issues its financial statements and annual budgeted expenditure limitation report in a timely manner and complies with its audit requirements, the District should implement corrective action recommendations as described in items 2013-01 through 2013-05.

The District's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2012-01.



# DISTRICT RESPONSE



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March 7, 2018

Ms. Debbie Davenport  
Auditor General  
2910 N. 44<sup>th</sup> Street, Ste. 410  
Phoenix, AZ 85018

Dear Ms. Davenport,

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in Government Auditing Standards for FY 2013.

Sincerely,

Stephen Cullen, Ph.D.  
Senior Dean

## **Audit 2013**

### **Responses to Findings**

Submitted by: Stephen Cullen, Ph.D.

March 7, 2018

#### **2013-01**

The District should improve its accounting system and recordkeeping.

Anticipated completion date: April 2018

Concur. The District will develop policies and procedures to improve its accounting system and recordkeeping. Some policies and procedures were established in fiscal year 2016-2017.

#### **2013-02**

The District should develop detailed financial statement preparation policies and procedures.

Anticipated completion date: April 2018

Concur. The District will develop detailed policies and procedures for financial statement preparation. The financial statements will be reviewed by the District prior to their submission.

#### **2013-03**

The district should establish policies and procedures to report and maintain stewardship over its capital assets.

Anticipated completion date: July 2016

Concur. The district will develop and implement policies and procedures to report and maintain stewardship over its capital assets.

### **2013-04**

The District should establish internal controls over its credit cards.

Anticipated completion date: April 2018

Concur. The District will establish internal controls and develop written procedures over its credit cards.

### **2013-05**

The District should improve controls over bank accounts and cash-handling activities.

Anticipated completion date: July 2016

Concur. The District will maintain effective internal controls policies and procedures over its bank accounts and cash-handling activities.

### **2013-06**

The District should establish internal controls for managing its accounting system.

Anticipated completion date: April 2018

Concur. The District will establish internal controls for managing its accounting system.

### **2013-07**

The District should establish internal controls over purchasing.

Anticipated completion date: April 2018

Concur. In fiscal year 2016, the District has developed policies for obtaining competitive sealed bids or proposals. The District will develop a policy for construction projects.

### **2013-08**

District management should improve reporting to governing board.

Anticipated completion date: April 2018

Concur. The District will develop a policy and procedure to ensure the governing board receives relevant and reliable information.

### **2013-09**

The District should issue timely audited financial statements.

Anticipated completion date: March 2018

Concur. The District will provide financial statements to the Auditor General for years ending 2016 and 2017 by March 31, 2018. The District continues to ensure financial statements are compiled and issued in a timely manner.

