

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

Annual Financial Report and
Report on Internal Control
and on Compliance

Year Ended June 30, 2019

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office 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.

The Joint Legislative Audit Committee

Representative **Anthony T. Kern**, Chair
Representative **John Allen**
Representative **Timothy M. Dunn**
Representative **Mitzi Epstein**
Representative **Jennifer Pawlik**
Representative **Rusty Bowers** (ex officio)

Senator **Rick Gray**, Vice Chair
Senator **Lupe Contreras**
Senator **Andrea Dalessandro**
Senator **David C. Farnsworth**
Senator **David Livingston**
Senator **Karen Fann** (ex officio)

Audit Staff

Donna Miller, Director
Mike Manion, Manager

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

(602) 553-0333

contact@azauditor.gov

www.azauditor.gov



TABLE OF CONTENTS

Annual Financial Report

Independent auditors' report

Financial statements

Required supplementary information—management's discussion and analysis	a-1
Governmental fund balance sheet/statement of net position	1
Statement of governmental fund revenues, expenditures, and changes in fund balance/ statement of activities	2
Notes to financial statements	3

Other required supplementary information

Budgetary comparison schedule—General Fund	11
Note to budgetary comparison schedule—General Fund	12

Report on Internal Control and on Compliance

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 <i>Government Auditing Standards</i>	13
--	----

ANNUAL FINANCIAL REPORT



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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 the Gila County Provisional Community College District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which 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.

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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the District as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

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 11 and 12 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 have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2020, 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.

Lindsey Perry, CPA, CFE
Auditor General

May 4, 2020



Gila Pueblo Campus
8274 S. Six Shooter Canyon Rd.
P.O. Box 2656
Globe, Arizona 85502-2656
Phone: 928-425-8481
Fax: 928-425-8492

Payson Campus
201 North Mud Springs Road
P.O. Box 359
Payson, Arizona 85547-0359
Phone: 928-468-8039
Fax: 928-468-8043

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, 2019. Please read it in conjunction with the District's basic 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, 2022. 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 2 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, 2019 and 2018.

Net Position
As of June 30, 2019 and 2018

Assets:	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Increase/(decrease)</u>
Current assets	\$ 5,773,982	\$ 5,209,255	\$ 564,727
Noncurrent assets:			
Capital assets, not being depreciated	1,506,553	1,678,032	(171,479)
Capital assets, net of accumulated depreciation	<u>5,198,280</u>	<u>4,967,202</u>	<u>231,078</u>
Total assets	<u>12,478,815</u>	<u>11,854,489</u>	<u>624,326</u>
Liabilities:			
Other liabilities	2,059,197	1,923,682	135,515
Long-term liabilities	<u>44,021</u>	<u>52,540</u>	<u>(8,519)</u>
Total liabilities	<u>2,103,218</u>	<u>1,976,222</u>	<u>126,996</u>
Net position:			
Net investment in capital assets	6,660,812	6,601,945	58,867
Unrestricted	<u>3,714,785</u>	<u>3,276,322</u>	<u>438,463</u>
Total net position	<u>\$10,375,597</u>	<u>\$ 9,878,267</u>	<u>\$ 497,330</u>

*Changes in Net Position
For the Years Ended June 30, 2019 and 2018*

Expenses:	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Increase/(decrease)</u>
Education and general	\$ 5,759,389	\$5,234,065	\$ 525,324
Interest on long-term debt	<u> </u>	<u>56</u>	<u>(56)</u>
Total expenses	<u>5,759,389</u>	<u>5,234,121</u>	<u>525,268</u>
Revenues:			
Program revenues:			
Charges for services	69,530	66,310	3,220
Operating grants and contracts	<u>603,207</u>	<u>639,104</u>	<u>(35,897)</u>
Total program revenues	<u>672,737</u>	<u>705,414</u>	<u>(32,677)</u>
General revenues:			
Property taxes	4,793,207	4,489,682	303,525
State appropriations	785,305	793,224	(7,919)
Investment earnings	5,470	3,194	2,276
Capital contributions		170,710	(170,710)
Other	<u> </u>	<u>1,784</u>	<u>(1,784)</u>
Total general revenues	<u>5,583,982</u>	<u>5,458,594</u>	<u>125,388</u>
Total revenues	<u>6,256,719</u>	<u>6,164,008</u>	<u>92,711</u>
Change in net position	\$ 497,330	\$ 929,887	<u><u>\$(432,557)</u></u>
Beginning net position	<u>9,878,267</u>	<u>8,948,380</u>	
Ending net position	<u><u>\$10,375,597</u></u>	<u><u>\$9,878,267</u></u>	

Significant variances

For the fiscal year ended June 30, 2019, 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, 2019 were \$12,478,815 consisting primarily of cash and investments of \$5,021,051 and capital assets, net of accumulated depreciation, of \$6,704,833. The increase in current assets of \$564,727 can be attributed to an increase in cash in the operating account due to increased property tax revenues and an increase in due from other governments due to an increase in unexpended workforce development monies held at EAC. The increase in noncurrent assets of \$59,599 was primarily the result of the development of a Payson Skills Lab and the purchase of land in Globe
- The total liabilities of \$2,103,218 were comprised of current obligations for educational and general expenses and long-term liabilities for long term debt. The increase in other liabilities of \$135,515 is the result of an increase in the due to other governments amount due to EAC for services provided.
- The increase in educational and general expenses of \$525,324 was primarily due to an increase in contractual expenses paid to EAC for the year.
- The increase in general revenues of \$125,388 is due to an increase in property tax revenues.
- A contributing factor in the decrease of \$35,897 in operating grants and contracts was that the District no longer received support from Gila County with respect to facilities.
- Net position increased \$497,330 from the prior year as revenues continue to exceed expenditures. The net position increase is \$432,557 less than in the prior year, due primarily to fiscal year 2017-18 being the first year the District received additional workforce development aid appropriated by the State and capital contributions of \$170,710 were received that year for donated assets

General fund budget

The District's actual educational and general expenditures were \$1,597,051 less than budgeted amounts primarily due to an anticipated increase in these expenditures for tuition that was budgeted but not realized because it was earned and reported by EAC and then deducted from amounts owed to EAC for contracted services.

Total revenues were \$342,770 more than budgeted, primarily due to receiving more operating grants and contracts revenues than budgeted. The District received a \$125,000 private grant.

The District's actual beginning fund balance was \$1,930,714 more than budgeted due to changes in estimated fund balance between the time the budget was initially prepared and the year-end actual results.

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

Capital assets and debt administration

Capital assets. The District's total investment in capital assets, net of accumulated depreciation, was \$6,704,833 which was comprised of land and land improvements, buildings and building improvements, equipment, vehicles, library books, and construction in progress. This is a net increase of \$59,599 from the prior year. The increase can be attributed primarily to the development of a Payson Skills Lab and the purchase of land in Globe.

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 \$44,021 in long-term debt outstanding, \$9,235 due within one year. This represents a decrease of \$8,519 due to the payment of debt.

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

Economic Outlook

As a result of the COVID-19 outbreak, economic uncertainties have arisen. However, the related financial impact and duration cannot be reasonably estimated at this time.

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 Jay Spehar, Governing Board President.

Gila County Provisional Community College District
(Gila Community College)
Governmental fund balance sheet/statement of net position
June 30, 2019

	<u>Balance sheet— general fund</u>	<u>Reconciliation (Note 7)</u>	<u>Statement of net position— governmental activities</u>
Assets			
Current assets:			
Cash and investments	\$ 5,021,051		\$ 5,021,051
Property taxes receivable	178,503		178,503
Due from other governments	<u>574,428</u>		<u>574,428</u>
Total current assets	<u>5,773,982</u>		<u>5,773,982</u>
Noncurrent assets:			
Capital assets, not being depreciated		\$ 1,506,553	1,506,553
Capital assets, net of accumulated depreciation		<u>5,198,280</u>	<u>5,198,280</u>
Total noncurrent assets		<u>6,704,833</u>	<u>6,704,833</u>
Total assets	<u>5,773,982</u>	<u>6,704,833</u>	<u>12,478,815</u>
Liabilities			
Current liabilities:			
Accounts payable	1,840		1,840
Due to other governments	2,042,557		2,042,557
Unearned revenue	14,800		14,800
Current portion of long-term debt		<u>9,235</u>	<u>9,235</u>
Total current liabilities	<u>2,059,197</u>	<u>9,235</u>	<u>2,068,432</u>
Noncurrent liabilities:			
Long-term debt		<u>34,786</u>	<u>34,786</u>
Total noncurrent liabilities		<u>34,786</u>	<u>34,786</u>
Total liabilities	<u>2,059,197</u>	<u>44,021</u>	<u>2,103,218</u>
Deferred inflows of resources			
Unavailable revenues—property taxes	<u>159,547</u>	<u>159,547</u>	
Total deferred inflows of resources	<u>159,547</u>	<u>159,547</u>	
Fund balance/net position			
Fund balance:			
Unassigned	<u>3,555,238</u>	<u>(3,555,238)</u>	
Total fund balance	<u>3,555,238</u>	<u>(3,555,238)</u>	
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,773,982</u>		
Net position:			
Net investment in capital assets		6,660,812	6,660,812
Unrestricted		<u>3,714,785</u>	<u>3,714,785</u>
Total net position		<u>\$ 10,375,597</u>	<u>\$ 10,375,597</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, 2019

	<u>General fund</u>	<u>Reconciliation (Note 7)</u>	<u>Statement of activities— governmental activities</u>
Expenditures/expenses			
Education and general	\$ 5,236,062	\$ 523,327	\$ 5,759,389
Debt service			
Principal retirement	8,519	(8,519)	
Capital outlay	<u>582,926</u>	<u>(582,926)</u>	
Total expenditures/expenses	<u>5,827,507</u>	<u>(68,118)</u>	<u>5,759,389</u>
Program revenues			
Charges for services	69,530		69,530
Operating grants and contracts	<u>603,207</u>		<u>603,207</u>
Total program revenues	<u>672,737</u>		<u>672,737</u>
Net program expenses	<u>5,154,770</u>	<u>(68,118)</u>	<u>5,086,652</u>
General revenues			
Property taxes	4,775,519	17,688	4,793,207
State appropriations	785,305		785,305
Investment earnings	<u>5,470</u>		<u>5,470</u>
Total general revenues	<u>5,566,294</u>	<u>17,688</u>	<u>5,583,982</u>
Net change in fund balance (deficit)	411,524	(411,524)	
Change in net position		497,330	497,330
Fund balance/net position			
July 1, 2018	<u>3,143,714</u>	<u>6,734,553</u>	<u>9,878,267</u>
June 30, 2019	<u>\$ 3,555,238</u>	<u>\$ 6,820,359</u>	<u>\$ 10,375,597</u>

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2019

Note 1 - Summary of significant accounting policies

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

A. Reporting entity

The District is a special-purpose government that a separately elected governing body governs. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the District's activities.

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, 2022. The agreement established that EAC will provide educational programs; certification of faculty; admission and registration of students; payroll services for EAC employees; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; collection of all tuition and fees for credit courses; cashiering for EAC-related functions; access to information relative to enrollments; and payment to adjunct faculty. EAC charges the District a fee of 25 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, deferred inflows of resources 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 investment in capital assets, represents the value of capital assets, net of accumulated depreciation, less any outstanding liabilities incurred to acquire or construct the assets. Unrestricted net position includes all other net resources, including those that have been designated by management to be used for other than general operating purposes.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2019

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 for instruction and student services, along with operating and capital grants and contributions, are considered to be program revenues. Other revenues used for instruction and student services, such as property taxes, state appropriations, and investment earnings, not classified as program revenues are considered to be general revenues.

The General Fund is the District's primary operating fund.

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. 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 acquisition value.

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:

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2019

	Capitalization threshold	Depreciation method	Estimated useful life
Land	\$1	Not applicable	Not applicable
Buildings and improvements	\$5,000	Straight-line	15-40 years
Equipment and vehicles	\$5,000	Straight-line	5-15 years
Improvements other than buildings	\$5,000	Straight-line	5-25 years
Library books	\$1	Straight-line	10 years

E. Property tax revenues

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

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

F. Deferred inflows of resources

The balance sheet includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of fund balance that applies to future periods and will be recognized as a revenue in future periods.

G. Investment earnings

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

H. Fund balance classifications

The governmental fund balance is reported separately within classifications based on a hierarchy of the constraints placed on the resources' use. 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 and regulations.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2019

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

Assigned fund balances are resources constrained by the District's intent to be used for specific purposes, but is 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. The District will use committed amounts first when disbursing unrestricted fund balances, 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. A.R.S. does 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. A.R.S requires collateral for deposits at 102 percent of all deposits not covered by federal depository insurance. A.R.S. does 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, 2019, the carrying amount of the District's deposits was \$4,972,588, and the bank balance was \$5,030,960. The District does not have a formal policy with respect to custodial credit risk of deposits. At June 30, 2019, the District's deposits were entirely covered by federal depository insurance or by collateral held by the pledging financial institution.

Investments—The District's investment in the County Treasurer's investment pool is valued using the District's proportionate participation in the pool because the pool's structure does not provide for shares. The District's portion is not identified with specific investments, and therefore, it is not subject to custodial credit risk. The District does not have a formal policy regarding custodial credit risk for investments.

The District's external investment pool balance measured at fair value at June 30, 2019 was as follows:

Investment type	Amount
County Treasurer's investment pool	\$48,213

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2019

Credit risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill the obligation. The District does not have a formal policy with respect to credit risk. At June 30, 2019, credit risk for the District’s investments was as follows:

Investment type	Rating	Rating agency	Amount
County Treasurer’s investment pool	Unrated	Not applicable	\$48,213

Interest rate risk—Interest rate risk is the risk that changes in interest rates will adversely affect an investments fair value. The District does not have a formal policy regarding interest rate risk for investments. At June 30, 2019, the District had the following investments:

Investment type	Average maturity	Amount
County Treasurer’s investment pool	1.01 years	\$48,213

A reconciliation of cash and investments to amounts shown on the Statement of Net Position follows:

Cash, deposits, and investments:		Statement of net position:	
Petty cash	\$ 250	Cash and investments	\$5,021,051
Amount of deposits	4,972,588		
Amount of investments	<u>48,213</u>		
Total	<u>\$5,021,051</u>	Total	<u>\$5,021,051</u>

Note 3 - Due from other governments

Due from other governments at June 30, 2019, as reported in the Statement of Net Position is comprised of amounts due from Eastern Arizona College in the amount of \$565,261, and \$9,167 due from the Arizona Department of Corrections.

Note 4 - Capital assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 1,210,000	\$ 58,208		\$ 1,268,208
Construction in progress	<u>468,032</u>	<u>35,855</u>	<u>\$ 265,542</u>	<u>238,345</u>
Total capital assets not being depreciated	<u>1,678,032</u>	<u>94,063</u>	<u>265,542</u>	<u>1,506,553</u>
Capital assets being depreciated:				
Buildings and improvements	5,370,475	338,581		5,709,056
Land improvements	165,627	18,187		183,814
Equipment	1,225,017	96,330	307,874	1,013,473
Vehicles	198,174	6,000		204,174
Library books	<u>361,668</u>			<u>361,668</u>
Total capital assets being depreciated	<u>7,320,961</u>	<u>459,098</u>	<u>307,874</u>	<u>7,472,185</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2019

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Less accumulated depreciation for:				
Buildings and improvements	\$ (859,249)	\$(152,648)		\$(1,011,897)
Land improvements	(15,277)	(7,503)		(22,780)
Equipment	(935,747)	(59,300)	\$(307,551)	(687,496)
Vehicles	(197,502)	(1,670)		(199,172)
Library books	<u>(345,984)</u>	<u>(6,576)</u>		<u>(352,560)</u>
Total accumulated depreciation	<u>(2,353,759)</u>	<u>(227,697)</u>	<u>(307,551)</u>	<u>(2,273,905)</u>
Total capital assets, being depreciated, net	<u>4,967,202</u>	<u>231,401</u>	<u>323</u>	<u>5,198,280</u>
Total capital assets, net	<u>\$ 6,645,234</u>	<u>\$ 325,464</u>	<u>\$ 265,865</u>	<u>\$ 6,704,833</u>

Construction commitments—In fiscal year 2018, the District began construction on modular buildings on the Globe campus for health classes and clinicals. The estimated cost to complete the project is \$223,885.

Note 5 - Due to other governments

At June 30, 2019, the District had reported a total amount due to other governments of \$2,042,557. A portion of this liability, in the amount of \$1,686,737 is owed to EAC for providing educational programs and services during the year. The remaining amount of \$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, 2019:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due within 1 year
Capital leases payable	\$14,360		\$2,156	\$12,204	\$2,872
Loan payable	<u>38,180</u>		<u>6,363</u>	<u>31,817</u>	<u>6,363</u>
Total long-term debt	<u>\$52,540</u>		<u>\$8,519</u>	<u>\$44,021</u>	<u>\$9,235</u>

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

The assets acquired through capital leases are as follows:

Equipment	\$14,360
Less: accumulated depreciation	<u>(2,564)</u>
Net carrying value	<u>\$11,796</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2019

The following schedule details minimum lease payments to maturity for the District's capital leases payable at June 30, 2019:

Year ending June 30:		
	2020	\$ 2,872
	2021	2,872
	2022	2,872
	2023	2,872
	2024	<u>716</u>
Present value of net minimum lease payments		<u>\$12,204</u>

Loan payable—The District acquired a building and equipment for the cosmetology program partially through an IGA with Northern Arizona Vocational Institute of Technology (NAVIT). In accordance with the agreement, NAVIT provided the District with \$187,264 in fiscal year 2014 and the District was required to pay back \$63,632. The agreement period is from July 1, 2014 through June 30, 2024 and required that the District must maintain a cosmetology program designed to lead College and JTED students to a career in cosmetology. Repayment is subject to the availability and appropriations of monies. At the end of the agreement all property and equipment purchased with the provided funds will remain the property of the District. If the agreement terminates because the District fails to comply with the provisions of the agreement, the District is required to repay the entire \$187,264 less any payments made.

The following schedule details debt service requirements to maturity for the District's long-term debt at June 30, 2019:

Year ending June 30:		
	2020	\$ 6,363
	2021	6,363
	2022	6,363
	2023	6,363
	2024	<u>6,365</u>
Total payments outstanding		<u>\$31,817</u>

Note 7 - Reconciliations

The reconciliation of the governmental fund balance sheet to the statement of net position at June 30, 2019, was as follows:

Fund balance—governmental fund	\$ 3,555,238
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	159,547
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund	6,704,833
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund	<u>(44,021)</u>
Net position of governmental activities	<u>\$10,375,597</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2019

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, 2019, was as follows:

Net change in fund balance—governmental fund	\$ 411,524
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund	17,688
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	287,619
Loss on disposal of capital assets	(323)
Depreciation expense	<u>(227,697)</u>
Net	59,599
Repayments of long-term debt principal are expenditures in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position	<u>8,519</u>
Change in net position of governmental activities	<u>\$ 497,330</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.

Gila County Provisional Community College District
(Gila Community College)
Required supplementary information
Budgetary comparison schedule—general fund
Year ended June 30, 2019

	<u>Original and final budget</u>	<u>Actual amounts</u>	<u>Variance with final budget</u>
Revenues:			
Property taxes	\$ 4,725,161	\$ 4,775,519	\$ 50,358
State appropriations	796,100	785,305	(10,795)
Charges for services		69,530	69,530
Operating grants and contracts	325,000	603,207	278,207
Investment earnings	<u>50,000</u>	<u>5,470</u>	<u>(44,530)</u>
Total revenues	<u>5,896,261</u>	<u>6,239,031</u>	<u>342,770</u>
Expenditures:			
Education and general	6,833,113	5,236,062	1,597,051
Debt service			
Principal retirement		8,519	(8,519)
Capital outlay	<u>276,100</u>	<u>582,926</u>	<u>(306,826)</u>
Total expenditures	<u>7,109,213</u>	<u>5,827,507</u>	<u>1,281,706</u>
Fund balance:			
July 1, 2018	<u>1,213,000</u>	<u>3,143,714</u>	<u>1,930,714</u>
June 30, 2019	<u>\$ 48</u>	<u>\$ 3,555,238</u>	<u>\$ 3,555,190</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, 2019**

Note 1 - Budgeting and budgetary control

A.R.S. requires the District to prepare and adopt a balanced budget annually for each governmental fund. 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).

Note 2 – Budgetary basis of accounting

The District's budget is prepared on a basis consistent with generally accepted accounting principles, except for the beginning unrestricted General Fund balance presented on the General Fund's Budgetary Comparison Schedule, which is budgeted on the cash basis.

INTERNAL CONTROL/COMPLIANCE REPORT



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and general fund of Gila County Provisional Community College District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 4, 2020.

Internal control over financial reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Lindsey Perry, CPA, CFE
Auditor General

May 4, 2020

