EASTERN ARIZONA COLLEGE

Graham County Community College District

Annual Financial Report

June 30, 2019

Graham County
Community College District
(Eastern Arizona College)
Single Audit Reporting Package
June 30, 2019

Graham County Community College District
(Eastern Arizona College)
Single audit reporting package
Year ended June 30, 2019

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(Eastern Arizona College)
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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
Graham County Community College District

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Graham County 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 did not audit the financial statements of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the other auditors' report. 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. The other auditors did not audit the discretely presented component unit's financial statements in accordance with *Government Auditing Standards*.

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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of the District as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof 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 5 through 9, schedule of the District's proportionate share of the net pension liability on page 32, and schedule of District pension contributions on page 33 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.

Supplementary information—schedule of expenditures of federal awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is management's responsibility and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 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

March 27, 2020

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Management's Discussion and Analysis

This discussion and analysis of the District's financial performance provides an overview of the District's financial 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's financial statements are presented in accordance with standards established by the Governmental Accounting Standards Board (GASB), the authoritative body for establishing U.S. Generally Accepted Accounting Principles (GAAP) for state and local governments, including public institutions of higher education. These standards permit public colleges and universities to use the guidance for special-purpose governments engaged in business-type activities in their separately issued financial statements. As such, the reader will observe that the presentation is a consolidated, single-column, entity-wide format, similar to the type of financial statements one might encounter from a typical business enterprise. The basic financial statements consist of the following:

The *Statement of Net Position* reflects the financial position of the District at June 30, 2019. It shows the various assets that are owned by the District, deferred outflows of resources, liabilities, deferred inflows of resources, and the various categories of net position. Net position is an accounting concept defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, and as such, represents institutional equity or ownership in the total assets of the District.

The *Statement of Revenues, Expenses, and Changes in Net Position* reflects the results of operations and other changes for the year ended June 30, 2019. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net position amount to the ending net position amount, which is shown on the *Statement of Net Position* described above.

The *Statement of Cash Flows* reflects the inflows and outflows of cash and cash equivalents for the year ended June 30, 2019. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the *Statement of Net Position* described above. In addition, this statement reconciles cash flows from operating activities to an operating loss on the *Statement of Revenues, Expenses, and Changes in Net Position* described above.

Financial Highlights and Analysis:

Consistent with its mission to prepare individuals to thrive through innovative educational programs, instruction is the primary function of the Graham County Community College District. Major funding sources supporting all functions include property taxes, state appropriations, government grants and contracts, and tuition and fees. The District exercises primary tax levy authority for generation of funds used for operations and capital equipment. The District continues to consider all ways to most efficiently allocate resources.

Condensed Financial Information:

The condensed financial information on the following page highlights the main categories of the *Statement of*

Net Position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Significant variances in assets and liabilities are presented below.

Condensed Schedule of Net Position
As of June 30, 2019 and June 30, 2018

	2019	2018	% Change
Assets:			
Current assets	$ 32,382,777	$ 30,077,029	8%
Noncurrent assets			
Capital assets, net	35,017,500	36,201,853	-3%
Total assets	**67,400,277**	**66,278,882**	2%
Deferred Outflows of Resources	3,610,458	3,799,056	-5%
Liabilities:			
Other liabilities	3,343,563	2,782,311	20%
Long-term liabilities	29,567,103	33,108,519	-11%
Total liabilities	**32,910,666**	**35,890,830**	-8%
Deferred Inflows of Resources	4,140,522	2,891,342	43%
Net Position:			
Net investment in capital assets	35,017,500	36,201,853	-3%
Restricted net position	2,317,457	1,766,203	31%
Unrestricted net position	(3,375,410)	(6,672,290)	49%
Total net position	**$ 33,959,547**	**$ 31,295,766**	9%

Financial Highlights and Analysis

Statement of Net Position:

The total net position for Graham County Community College District increased by $2,663,781, or 9%, from the prior fiscal year due to the District's revenues exceeding expenses. As a result, the District's total assets increased by $1,121,395 or 2%, and total liabilities decreased by $2,980,164, or 8%. The increase to net position was also affected by a decrease in deferred outflows, as well as an increase in deferred inflows of resources, as discussed below.

The District's current assets increased by $2,305,748, or 8%, from the prior year. This increase was due to an increase in receivables of $139,793, or 5% and an increase in cash and investments of $2,168,849, or 8%. The increase in cash and investments improved from the trend of the prior five years where cash and investments decreased. The improvement in cash and investments was partially due to increases in accrued payroll and employee benefits of $134,831, compensated absences payable of $178,754, and in deposits held in custody for others of $183,514. The increase in cash and investments was also due to an increase in revenues with a corresponding decrease in expenses. The change in revenues and expenses are further discussed in the next section. While the strategic cash position of the District has improved and is healthy, there is continued acknowledgement of a need to find ways to increase revenues and reduce expenses to continue this trend while also properly maintaining properties, facilities, and other resources.

The majority of the increase in receivables as discussed above is attributed to an increase in government grants and contracts receivables of $203,594, a 9% increase. This increase was primarily due to an increase of receivables due from Gila County Provisional Community College District contract of $161,435. There was also an increase in receivables of $37,890 due to being awarded a Strengthening Institutions Program Grant from the Department of Education. There were also other grants and contracts with nominal receivable changes.

Deferred outflows of resources decreased by $188,598, or 5% due to a decrease in the net difference between expected and actual earnings on pension plan investments and changes in assumptions. The deferred outflows of resources amount is comprised of contributions related to the ASRS that have not yet been recognized as a reduction of the net pension liability and the net difference between projected and actual earnings on pension plan investments that have not yet been recognized as an expense.

As previously mentioned, total liabilities decreased by 8% with other liabilities increasing by 20%, and long-term liabilities decreasing by 11%. The increase of 20% in other liabilities, or $561,252, is mostly attributed to increasing insurance claim payable of $121,608, accounts payable of $123,936, accrued payroll and employee benefits of $134,831, and deposits held in custody for others of $183,514. These increases were offset by a small decrease in unearned revenues of $2,637.

The 11% decrease in long-term liabilities amounted to a $3,541,416 decrease. Within this category, compensated absences payable increased by $178,754, while the institution's net pension liability with ASRS decreased by $3,720,170, or 12%.

Deferred inflows of resources increased by $1,249,180. This 43% increase is a result of differences between the expected and actual pension experience and changes of assumptions or other inputs as of June 30, 2018.

More details on assets, deferred outflows of resources, liabilities, and deferred inflows of resources can be found on the *Statement of Net Position*, as well as accompanying notes.

The condensed financial information on the following page highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Position*.

Condensed Schedule of Changes in Revenues, Expenses, and Net Position
For the Years Ended June 30, 2019 and 2018

	2019	2018	% Change
Operating revenues:			
Tuition and fees, net of scholarship allowances	$ 3,352,762	$ 3,328,605	1%
Government contracts	6,477,044	5,650,710	15%
Other	1,000,855	907,238	10%
Total operating revenues	**10,830,661**	**9,886,553**	10%
Nonoperating revenues:			
Property taxes	6,318,443	6,046,161	5%
State appropriations	18,710,100	17,925,900	4%
Government grants	7,503,198	7,439,906	1%
Other	1,342,865	1,002,595	34%
Total nonoperating revenues	**33,874,606**	**32,414,562**	5%
Total revenues	**44,705,267**	**42,301,115**	6%
Operating expenses:			
Instruction	15,997,371	16,901,701	-5%
Academic support	732,344	768,007	-5%
Student services	6,572,243	6,243,022	5%
Institutional support	7,179,059	7,884,143	-9%
Operation and maintenance of plant	4,180,969	3,951,599	6%
Scholarships	2,725,587	2,946,076	-7%
Auxiliary enterprises	2,554,518	2,600,100	-2%
Depreciation	2,099,394	2,205,238	-5%
Total operating expenses	**42,041,486**	**43,499,886**	-3%
Increase (decrease) in net position	**2,663,781**	**(1,198,770)**	322%
Net position, beginning of year	31,295,766	32,494,536	-4%
Net position, end of year	**$ 33,959,547**	**$ 31,295,766**	9%

Statement of Revenues, Expenses, and Changes in Net Position

Graham County Community College District has five major sources of revenue that account for 95% of all revenues. These are state appropriations (42%), government grants (17%), property taxes (14%), government contracts (14%), and tuition and fees (8%).

Total revenue for the District increased by 6%, or $2,404,153. Operating revenues were up 10%, or $944,109, due primarily to an increase in government contracts related primarily of increased services for Gila County Provisional Community College District of $826,334. The remaining increase was due to increases in tuition and fees and other revenue, totaling $117,775.

Nonoperating revenues increased by 5%, or $1,460,044 due to an increase of property taxes of $272,282, state appropriations of $784,200, government grants of $63,292, and other revenue of $340,270. The increase in other revenue is attributed mostly to the increase in investment income of $288,554.

Total operating expenses decreased by $1,458,399, or 3%. This reflects a $904,330 decrease in instruction, $35,663 decrease in academic support, $705,084 decrease in institutional support, $220,489 decrease in scholarships, and an increase of $329,221 in student services and $229,370 in operations and maintenance of plant. Aside from depreciation, the other areas experienced less than a 3% change. The decrease in operating expenses was mostly due to the changes in estimated net pension liability that reduced the pension expense allocated to the different operating expense areas.

Capital Assets Administration

As of June 30, 2019, the District's capital assets, net of accumulated depreciation, totaled $35 million, a net decrease of $1,184,353. The District had no major construction projects completed during the year. Capital assets include land, equipment, buildings, improvements other than buildings, library books, infrastructure, and construction in progress. Additional information on capital assets can be found in Note 3 to the District's financial statements.

Current Factors Having Probable Future Financial Significance

With the passing of the Fair Wages and Healthy Families Initiative for the State of Arizona, also known as Proposition 206, the minimum wage requirements in the state increased to $10 an hour in January of 2017 and will continue to gradually increase to $12 an hour by January of 2020. This results in additional financial commitments related to part-time and work-study employment costs. The District will continue to monitor the affects of these increases and the amount of employment hours the District is able to support.

The Arizona State Legislature's budget for FY20 included an additional one-time $14.2 million for community college districts. The District's portion of this is $1.5 million and will be received throughout FY20. The institution continues to analyze expenses and reduce budgets where possible, while also striving to maintain the high-quality education and service our students and customers have come to expect from the college.

The recent outbreak of the COVID-19 virus may negatively impact the District. Because the virus is still relatively new and in its early stages, it is too early to really know and quantify the extent of the impact. As a result, the impact is unknown.

Graham County Community College District
(Eastern Arizona College)
Statement of Net Position – Primary Government
June 30, 2019

		Business-Type Activities
Assets		
Current assets:		
Cash and cash equivalents	$	29,498,045
Receivables (net of allowance for uncollectibles):		
Property taxes		363,294
Government grants and contracts		2,381,008
Other		126,314
Inventories		14,116
Total current assets		32,382,777
Noncurrent assets:		
Capital assets, not being depreciated		7,856,886
Capital assets, being depreciated, net		27,160,614
Total noncurrent assets		35,017,500
Total assets		67,400,277
Deferred Outflows of Resources		
Deferred outflows related to pensions		3,610,458
Total deferred outflows of resources		3,610,458
Liabilities		
Current liabilities:		
Accounts payable		359,826
Accrued payroll and employee benefits		683,915
Insurance claims payable		1,587,140
Deposits held in custody for others		705,080
Unearned revenues		7,602
Current portion of compensated absences payable		883,844
Total current liabilities		4,227,407
Noncurrent liabilities:		
Compensated absences payable		1,797,233
Net pension liability		26,886,026
Total noncurrent liabilities		28,683,259
Total liabilities		32,910,666
Deferred Inflows of Resources		
Deferred inflows related to pensions		4,140,522
Total deferred inflows of resources		4,140,522
Net Position		
Net investment in capital assets		35,017,500
Restricted:		
Expendable for workforce development		2,317,457
Unrestricted (deficit)		(3,375,410)
Total net position	$	33,959,547

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Financial Position—Component Unit
June 30, 2019

	Eastern Arizona College Foundation
Assets	
Cash and cash equivalents	$ 134,434
Investments	8,182,192
Property and equipment, net	86,325
Museum collection	221,075
Total assets	**8,624,026**
Liabilities	
Accounts payable	4,877
Accrued expenses	20,664
Liability under split-interest agreements	38,484
Total liabilities	**64,025**
Net Assets	
Without donor restriction	2,545,094
With donor restrictions	6,014,907
Total net assets	**8,560,001**
Total liabilities and net assets	**$ 8,624,026**

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Revenues, Expenses, and Changes in Net Position—Primary Government
Year Ended June 30, 2019

	Business-Type Activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of $4,291,077)	$ 3,352,762
Government contracts	6,477,044
Private contracts	134,729
Food service income (net of scholarship allowances of $629,941)	229,629
Dormitory rentals and fees (net of scholarship allowances of $409,507)	283,473
Other	353,024
Total operating revenues	10,830,661
Operating expenses:	
Educational and general:	
Instruction	15,997,371
Academic support	732,344
Student services	6,572,243
Institutional support	7,179,059
Operation and maintenance of plant	4,180,969
Scholarships	2,725,587
Auxiliary enterprises	2,554,518
Depreciation	2,099,394
Total operating expenses	42,041,486
Operating loss	(31,210,825)
Nonoperating revenues:	
Property taxes	6,318,443
State appropriations	18,710,100
Government grants	7,503,198
Share of state sales taxes	714,376
Investment earnings	622,696
Gain on disposal of capital assets	5,793
Total nonoperating revenues	33,874,606
Increase in net position	2,663,781
Net position July 1, 2018	31,295,766
Net position, June 30, 2019	$ 33,959,547

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Activities—Component Unit
Year Ended June 30, 2019

	Eastern Arizona College Foundation		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Foundation revenue	$ 276,806	$ -	$ 276,806
Contributions	11,592	564,818	576,410
Investment income	44,460	106,507	150,967
Net realized and unrealized gains on investments	6,942	51,844	58,786
Change in value of split-interest agreement	-	4,330	4,330
Total Revenue and Support	339,800	727,499	1,067,299
Net assets released from restrictions:			
Satisfied by scholarship criteria	438,482	(438,482)	-
Total Revenue, Support, and Net Assets Released from Restrictions	778,282	289,017	1,067,299
Expenses and Losses			
Program services:			
Scholarship Awards	462,532	-	462,532
Supporting Activities:			
General and administrative	349,969	-	349,969
Fundraising	22,820	-	22,820
Total Expenses and Losses	835,321	-	835,321
Change in net assets	(57,039)	289,017	231,978
Net assets at July 1, 2018	2,602,133	5,725,890	8,328,023
Net assets at June 30, 2019	$ 2,545,094	$ 6,014,907	$ 8,560,001

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2019

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	$ 3,352,762
Government contracts	5,871,731
Private contracts	134,729
Food service receipts	229,629
Dormitory rentals and fees	283,473
Other receipts	436,416
Payments to suppliers and providers of goods and services	(6,966,834)
Payments for employee wages and benefits	(31,976,998)
Payments to students for scholarships	(2,718,629)
Net cash used for operating activities	**(31,353,721)**
Cash flows from noncapital financing activities:	
Property taxes	6,298,853
State appropriations	18,710,100
Government grants	7,902,280
Share of state sales taxes	714,376
Deposits held in custody for others received	561,628
Deposits held in custody for others disbursed	(378,114)
Net cash provided by noncapital financing activities	**33,809,123**
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	39,973
Payments made to contractors	(136,196)
Purchases of capital assets	(813,026)
Net cash used for capital and related financing activities	**(909,249)**
Cash flows from investing activities:	
Interest received on investments	622,696
Net cash provided by investing activities	**622,696**
Net Increase (decrease) in cash and cash equivalents	**2,168,849**
Cash and cash equivalents, July 1, 2018	27,329,196
Cash and cash equivalents, June 30, 2019	**$ 29,498,045**

(Continued)

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2019
(Continued)

Reconciliation of operating loss to net cash used for operating activities:	**Business-Type Activities**
Operating loss	$ (31,210,824)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	2,099,394
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Net pension liability	(3,720,170)
Deferred outflows of resources related to pensions	188,598
Deferred inflows of resources related to pensions	1,249,180
Accounts payable	123,936
Government grants and contracts receivable	(605,313)
Other receivables	83,391
Compensated absences payable	178,754
Insurance claims payable	121,608
Inventories	2,894
Accrued payroll and employee benefits	134,831
Net cash used for operating activities	**$ (31,353,721)**

See accompanying notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

Graham County Community College District's accounting policies conform to generally accepted accounting principles applicable to public institutions engaged only in business-type activities 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 activities of the District (the primary government) and its discretely presented component unit, the Eastern Arizona College Foundation.

The Eastern Arizona College Foundation is a legally separate, tax-exempt organization. It acts primarily as a fund-raising organization that receives 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 Foundation, the Foundation's restricted resources can only be used by or for the benefit of the District or its constituents. Consequently, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board (FASB) 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 Foundation's 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 Foundation's 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 Foundation has a June 30 year-end.

During the year ended June 30, 2019, the Foundation distributed $494,788 to the District for both restricted and unrestricted purposes, including administrative and program support and scholarships. In addition, the District paid the Foundation $258,000 under a contract for services to develop, coordinate, manage, and administer fundraising and alumni involvement programs for the District. Complete financial statements for the Foundation can be obtained from the Eastern Arizona College Foundation, 615 N. Stadium Ave., Thatcher, Arizona 85552.

B. Basis of Presentation and Accounting

The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

A statement of net position provides information about the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position 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 District obligations. Net investment in capital assets represents the value of capital assets, net of accumulated depreciation. Expendable restricted net position represents grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net position consists of all other resources, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in net position provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net position are reported. Operating revenues and expenses generally result from exchange transactions such as providing instructional, public, and nonauxiliary services, which is consistent with the District's mission. Accordingly, revenues such as tuition, government contracts, food service, and dormitory charges, in which each party receives and gives up essentially equal values, are considered operating revenues. Other revenues, such as property taxes, state appropriations, and government grants are not generated from operations and are considered nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

A statement of cash flows provides information about the District's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

The financial statements 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 as revenue in the year for 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.

The District eliminates all internal activity. It is the District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

C. Cash and Investments

For the statement of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments in the State Treasurer's Local Government Investment Pool with a maturity of three months or less when purchased. All investments are stated at fair value.

D. Inventories

All inventories are stated at the lower of cost (first-in, first-out method) or market.

E. Capital Assets

Capital assets of the District consist of land, buildings, improvements other than buildings, equipment, library materials, infrastructure, and construction in progress. Capital assets are reported at actual cost. Donated assets are reported at acquisition value. Major outlays for assets or improvements to assets are capitalized as projects are constructed. These are categorized as construction in progress until completed, at which time they are reclassified to the appropriate asset category.

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:

Asset Category	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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
Infrastructure	$5,000	Straight-line	50-75 years

F. Deferred Outflows and Inflows of Resources

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense in future periods. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will be recognized as a revenue in future periods.

G. Postemployment benefits

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

H. Investment Earnings

Investment earnings are composed of interest.

I. Scholarship Allowances

A scholarship allowance is the difference between the stated charge for goods and services the District provides and the amount that the student or third parties making payments on the student's behalf pays. Accordingly, some types of student financial aid, such as Pell grants and scholarships the District awards, are considered scholarship allowances. These allowances are netted against tuition and fees, food service income, and dormitory rentals and fees revenues, in the statement of revenues, expenses, and changes in net position.

J. Compensated Absences

Compensated absences payable consists of vacation leave and a calculated amount of sick leave employees earned based on services already rendered.

Employees may earn and accumulate vacation days according to their employment position and years of service. Vacation days earned per month range from .83 to 1.83 with a maximum accumulation ranging between 24 and 44 days. Vacation days in excess of the maximums are forfeited at the end of each month. Upon terminating employment, the District pays all unused and unforfeited vacation benefits to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees. Therefore, a liability for sick leave benefits is not accrued in the financial statements. However, for employees who meet certain requirements under the District's option plan, sick leave benefits do vest. The option provides payment up to the maximum of 100 days of accrued sick days multiplied by the employee's daily rate for employees who have at least 10 years of service and qualify for normal retirement, disability, or death benefit. An estimate of that amount is accrued as a liability in the financial statements.

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, 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 $1,482,085 and the bank balance was $1,842,090. The District does not have a formal policy with respect to custodial credit risk of deposits.

Investments—At June 30, 2019, the fair value of the District's share of the State Treasurer's Local Government Investment Pool 7 was $28,006,960. Investments in the State Treasurer's investment pools are valued at the pool's share price multiplied by the number of shares the District held. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The State Board of Investment provides oversight for the State Treasurer's investment pools.

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 investment policy regarding credit risk. The State Treasurer's Local Government Investment Pool 7 is unrated.

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. At June 30, 2019, the District's investment in the State Treasurer's Local Government Investment Pool 7 had a weighted average maturity of 31 days.

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

Graham County Community College District
(Eastern Arizona College)
Notes to financial statements
June 30, 2019

Cash, Deposits, and Investments	Amount
Cash on Hand	$ 9,000
Deposits	1,482,085
Investments	28,006,960
Total cash and cash equivalents	$ 29,498,045

Note 3 – 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	7,717,343	-		7,717,343
Construction in progress	3,347	136,196		139,543
Total capital assets not being depreciated	7,720,690	136,196	-	7,856,886
Capital assets being depreciated:				
Infrastructure	26,827	-	-	26,827
Buildings	48,069,969	-	(57,789)	48,012,180
Equipment	15,456,022	721,705	(163,880)	16,013,847
Improvements other than buildings	2,868,234	36,476	-	2,904,710
Library materials	797,332	54,845	(327,845)	524,332
Total capital assets being depreciated	67,218,384	813,026	(549,514)	67,481,896
Less accumulated depreciation for:				
Infrastructure	(1,790)	(537)	-	(2,327)
Buildings	(24,198,402)	(1,080,831)	27,097	(25,252,136)
Equipment	(11,663,820)	(921,505)	162,955	(12,422,370)
Improvements other than buildings	(2,372,510)	(47,270)	-	(2,419,780)
Library materials	(500,700)	(49,251)	325,282	(224,669)
Total accumulated depreciation	(38,737,222)	(2,099,394)	515,334	(40,321,282)
Total capital assets being depreciated, net	28,481,162	(1,286,368)	(34,180)	27,160,614
Capital assets, net	$ 36,201,852	$ (1,150,172)	$ (34,180)	$ 35,017,500

Note 4 – 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 one year
Net pension liability	$ 30,606,196		$ 3,720,170	$ 26,886,026	
Compensated absences payable	2,502,323	1,514,247	$ 1,335,493	2,681,077	883,844
Total long-term liabilities	$ 33,108,519	$ 1,514,247	$ 5,055,663	$ 29,567,103	$ 883,844

Note 5 - 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 participates in the Arizona School Risk Retention Trust, Inc., a public-entity risk pool. The Trust insures the District against liabilities arising from general liability, professional liability, property, automobile, boiler and machinery, and commercial crime risks. The Trust's operating agreement includes a provision for the member to be charged an additional assessment in the event that total claims paid by the Trust exceed the members' contributions and reserves in any 1 year. The District will be charged for any such assessment in the following year. The District has never been charged such an assessment. The District also carries commercial insurance for other risks of loss, including: workers' compensation, intercollegiate athletic injury liability, and student professional liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

The District finances uninsured risks of loss for medical benefits to eligible employees and their dependents. The healthcare plan provides coverage for amounts up to $100,000 per insured individual. The District purchases commercial insurance for claims in excess of this limit and performs analysis to determine the required annual funding based upon anticipated utilization, cost trends, and benefit levels. Independent administrators provide claim and recordkeeping services for the self-insured plan.

The insurance claims payable, of $1,587,140 at June 30, 2019, includes the amount payable for medical benefits. It is the estimated cost of settling claims that have been incurred and future claims that may occur. Changes in the District's medical benefits payable for the years ended June 30, 2019 and 2018, are as follows:

Medical benefits:	2019	2018
Claims payable, beginning of year	$ 1,465,532	$ 1,857,598
Current year actual and estimated claims	3,224,330	3,264,297
Less: Claims payments	3,102,722	3,656,362
Estimated claims payable, end of year	$ 1,587,140	$ 1,465,532

Note 6 - Pension

Plan description - District employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. The ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided - The ASRS provides retirement and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial membership date: Before July 1, 2011	 On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, statute required the active ASRS members to contribute at the actuarially determined rate of 11.64 percent of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.18 percent of the active members' annual covered payroll. In addition, the District was required by statute to contribute at the actuarially determined rate of 10.41 percent of annual covered payroll of retired members who worked for the District in positions that an employee who contributes to the ASRS would typically fill. The District's contributions to the pension plan for the year ended June 30, 2019, were $2,131,032.

Pension liability - At June 30, 2019, the District reported a liability of $26,886,026 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The total pension liability as of June 30, 2018, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ending June 30, 2016, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3-6.75 percent to 2.7-7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2018. The District's proportion measured as of June 30, 2018, and the change from its proportions measured as of June 30, 2017 was 0.19278 percent, which was a decrease of 0.00369 percent from its proportion measured as of June 30, 2017.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2019, the District recognized pension expense for ASRS of $(151,360).

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 740,688	$ 148,218
Changes of assumptions or other inputs	711,453	2,383,815
Net difference between projected and actual earnings on pension plan investments		646,545
Changes in proportion and differences between district contributions and proportionate share of contributions	27,285	961,944
District contributions subsequent to the measurement date	2,131,032	-
Total	$ 3,610,458	$ 4,140,522

The $2,131,032 reported as deferred outflows of resources related to ASRS pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2020	$ (431,771)
2021	(958,612)
2022	(980,762)
2023	(289,951)

Actuarial assumptions - The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equity	50%	5.50%
Fixed income	30%	3.83%
Real estate	20%	5.85%
Total	100%	

Discount rate – At June 30, 2018, the discount rate used to measure the ASRS total pension liability was 7.5 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the ASRS net pension liability to changes in the discount rate - The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	$ 38,326,648	$ 26,886,026	$ 17,327,570

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

Pension contributions payable - The District's accrued payroll and employee benefits included $72,898 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2019.

Note 7 – Operating Expenses

The District's operating expenses are presented by functional classification in the Statement of Revenues, Expenses, and Changes in Net Position - Primary Government. The operating expenses can also be classified into the following:

Personal services	$ 27,831,405
Contract services	2,314,418
Supplies and other services	2,875,126
Communications and utilities	1,540,958
Scholarships	2,725,587
Depreciation	2,099,394
Other	2,654,598
Total	$ 42,041,486

Note 8 – Discretely Presented Component Unit Disclosures

The District's discretely presented component unit is comprised of the Eastern Arizona College Foundation.

A. Nature of Activities and Significant Accounting Policies

The primary objective of the Eastern Arizona College Foundation is to create a positive environment in which to cultivate gifts to Eastern Arizona College, located in Thatcher, Arizona. The Foundation funds its activities primarily through contributions and investment income. The primary source of Foundation revenue is alumni and friends of Eastern Arizona College as well as the College itself.

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

The Foundation reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and a board-designated endowment. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, such as those that the donor stipulates that resources be maintained in perpetuity.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

The Foundation's unspent contributions are reported in net assets with donor contributions if the donor limited their use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Foundation reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair value at the date of donation.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. Contributions of property and equipment are reported as net assets with donor restrictions if the donor restricted the use of the property or equipment to a particular program, as are contributions of cash restricted to the purchase of property and equipment. Otherwise, donor restrictions on contributions of property and equipment or assets restricted for purchase of property and equipment are considered to expire when the assets are placed in service.

All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets with donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends, or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

The costs of providing the various programs and other activities of the Foundation are summarized on a functional basis in the accompanying consolidated statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Directly identifiable expenses are charged to the applicable program and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

The Foundation is exempt from income taxes as a non-profit corporation under Internal Revenue Code and, accordingly, the financial statements do not reflect a provision for income taxes. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(I)(A) and been classified as an organization other than a private foundation under Section 509(a)(2).

B. Change in Accounting Principle

The Financial Accounting Standards Board has issued ASU 2016-14, Not-for-Profit Entities (Topic 958) — Presentation of Financial Statements of Not-for-Profit Entities. Eastern Arizona College Foundation has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Foundation's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources.

C. Liquidity

Financial Assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the statement of financial position date comprise the following:

Financial assets at year end	$ 8,316,626
Less those unavailable for general expenditures within one year	
Donor imposed restrictions	
Donor Restricted to scholarships	(5,670,238)
Investment held in gift annuity	(110,425)
Board designations	
Quasi-endowment fund	(1,887,868)
Financial assets available for general use within one year	$ 648,095

D. Investments

Investments consist primarily of marketable securities. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income in the Statement of Activities is reported net of investment expenses, such as custodial and advisory fees, of $46,404.

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Investments at June 30, 2019, were comprised of the following:

	Level 1	Level 2	Level 3	Total
Corporate bonds	$ -	$ 112,670	$ -	$ 112,670
Managed investment account				
Money market funds	278,946	-	-	278,946
Government securities	-	236,708	-	236,708
Corporate bonds	-	252,564	-	252,564
Municipal bonds	-	164,065	-	164,065
Equities	2,646,517	-	-	2,646,517
Equity mutual funds	4,490,722	-	-	4,490,722
	7,416,185	766,007	-	8,182,192

E. Property and Equipment

Property and equipment at June 30, 2019, are summarized as follows:

Real estate	86,325
Less accumulated depreciation	-
	$ 86,325

There was no depreciation expense for the year ended June 30, 2019.

F. Museum Collection

Collections, which consist entirely of the museum collection of Native American artifacts, are stated at appraised market value at date of acquisition. The Foundation is responsible for the maintenance and preservation of the collection.

G. Split-Interest Gift Annuity

During fiscal 2015 the Foundation was the recipient of a gift annuity. Under the terms of the gift annuity the donor will be paid $6,300 annually for the remainder of the joint annuitants' natural lives. At the end of the annuity the remaining assets are available for the Foundation's use. Assets held for the annuity are reported at fair value and at June 30, 2019, totaled $113,374 (consisting of cash and marketable securities of $704 and $112,670, respectively). Fair value measurements at the reporting date are determined using quoted prices in active markets (Level 1 fair value hierarchy). On an annual basis, the Foundation revalues the annuity liability to make distributions to the annuitant based on actuarial assumptions. The present value of the estimated future payments ($38,484 at June 30, 2019) is calculated using the trust rate of 9% and applicable mortality tables.

H. Endowments

The Foundation's endowments consist of both donor-restricted contributions and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

As of June 30, 2019, the Board of Directors has designated $1,824,041 of net assets without donor restrictions as a general endowment fund to support the mission of the Foundation. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

The Foundation has interpreted the Arizona Management of Charitable Funds Act (MCFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MCFA. In accordance with MCFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent rate of return.

The Foundation has a policy of appropriating for distribution each year a portion of the realized income from the endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment income.

Endowment Net Asset Composition by type of fund as of June 30, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 6,075,485	$ 6,075,485
Board-designated endowment funds	1,824,041	-	1,824,041
	$ 1,824,041	$ 6,075,485	$ 7,899,526

Changes in endowment net assets for the year ending June 30, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	$1,887,867	$5,725,891	$7,613,758
Contributions	-	552,818	$552,818
Investment income	36,435	106,506	$142,941
Net unrealized gain on investments	4,931	51,844	$56,775
Change in split-interest agreements	-	4,330	4,330
Appropriated for expenditure	-	(377,902)	(377,902)
Transfers	(105,192)	11,998	(93,194)
Endowment net assets, ending	$1,824,041	$6,075,485	$7,899,526

I. Net Assets with Donor Restrictions

Restricted net assets are available for the following purposes:

Scholarships	$ 5,944,348
Split-interest gift annuities	70,559
	$ 6,014,907

J. Concentrations

The Foundation maintains cash and cash equivalents at banks and other financial institutions located in Arizona, Massachusetts, and New York, which throughout the year may exceed federally insured deposit limits.

The Foundation's investments in marketable securities are under the management of Edward Jones of Maryland Heights, Missouri. The managed investment account is managed by Merrill Lynch of New York, New York.

Graham County Community College District
(Eastern Arizona College)
Required supplementary information
Schedule of the District's proportionate share of the net pension liability
June 30, 2019

Arizona State Retirement System	Reporting Fiscal Year (Measurement Date)					
	2019 **(2018)**	**2018** **(2017)**	**2017** **(2016)**	**2016** **(2015)**	**2015** **(2014)**	**2014** through **2010**
District's proportion of the net pension liability	0.192780%	0.196470%	0.205850%	0.203200%	0.203913%	Information
District's proportionate share of the net pension liability	$ 26,886,026	$ 30,606,196	$ 33,226,258	$ 31,650,974	$ 30,172,192	not available
District's covered payroll	$ 19,716,720	$ 19,734,192	$ 19,774,535	$ 19,067,413	$ 19,043,860	
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	136.36%	155.09%	168.03%	166.00%	158.44%	
Plan fiduciary net position as a percentage of the total pension liability	73.40%	69.92%	67.06%	68.35%	69.49%	

Graham County Community College District
(Eastern Arizona College)
Required supplementary information
Schedule of District's pension contributions
June 30, 2019

Arizona State Retirement System — Reporting Fiscal Year

	2019	2018	2017	2016	2015
Statutorily required contribution	$ 2,131,032	$ 2,086,307	$ 2,064,797	$ 2,091,140	$ 2,033,427
District's contributions in relation to the statutorily required contribution	2,131,032	2,086,307	2,064,797	2,091,140	2,033,427
District's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 19,269,010	$ 19,716,720	$ 19,734,192	$ 19,774,535	$ 19,067,413
District's contributions as a percentage of covered payroll	11.06%	10.58%	10.46%	10.57%	10.66%

	2014	2013	2012	2011	2010
Statutorily required contribution	$ 1,979,071	$ 1,830,603	$ 1,534,238	$ 1,343,843	$ 1,225,911
District's contributions in relation to the statutorily required contribution	1,979,071	1,830,603	1,534,238	1,343,843	1,225,911
District's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 19,043,860	$ 18,320,229	$ 15,517,223	$ 14,920,366	$ 14,718,172
District's contributions as a percentage of covered payroll	10.39%	9.99%	9.89%	9.01%	8.33%

Supplementary Information

GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Schedule of expenditures of federal awards
Year Ended June 30, 2019

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number	Program expenditures
Department of Labor					
17 282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants		Pinal County Community College District	TC-26465-14-60-A-4	$ 34,649
Institute of Museum and Library Services					
45 310	Grants to States		Arizona State Library	2017-0010-D-00	223
National Science Foundation					
47 041	Engineering Grants				12,381
47 076	Education and Human Resources		Arizona Science Center	DRL - 1612555	45,304
	Total National Science Foundation				57,685
Small Business Administration					
59 037	**Small Business Development Centers**		Maricopa County Community College District	SBAHQ-18-B-0042, SBAHQ-19-B-0026	133,673
Department of Education					
84 033	Federal Work-Study Program	Student Financial Assistance Cluster			232,692
84 007	Federal Supplemental Educational Opportunity Grants	Student Financial Assistance Cluster			103,578
84 063	Federal Pell Grant Program	Student Financial Assistance Cluster			4,752,426
	Total Student Financial Assistance Cluster				5,088,696
84 031	Strengthening Institutions Program				183,590
84 048	Career and Technical Education—Basic Grants to States		Arizona Department of Education	18FCTDBG-812241-20A, 19FCTDBG-912241-20A,	267,548
84 334	Gaining Early Aw areness and Readiness for Undergraduate Programs				1,584,985
	Total Department of Education				7,124,819
Department of Health and Human Services					
93 136	Sexual Violence Prevention and Education Program		Arizona Department of Health Services	NUF2CE0024 15-05-01	10,000
	Total expenditures of federal awards				$ 7,361,049

See accompanying notes to schedule.

GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to schedule of expenditures of federal awards
Year Ended June 30, 2019

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Graham County Community College District for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2019 *Catalog of Federal Domestic Assistance*.

Note 4 - Indirect cost rate

The District did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

Graham County
Community College District
(Eastern Arizona College)
Single Audit Section
June 30, 2019

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
Graham County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Graham County 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 March 27, 2020. Our report includes a reference to other auditors who audited the financial statements of the Eastern Arizona College Foundation, the discretely presented component unit, as described in our report on the District's 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. However, the Foundation's financial statements were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

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 questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and a 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2019-02 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2019-01 to be a significant deficiency.

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*.

District response to findings

The 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 is responsible for preparing a corrective action plan to address each finding. The District's responses and corrective action plan 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.

Lindsey Perry, CPA, CFE
Auditor General

March 27, 2020

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report on compliance for each major federal program and report on internal control over compliance

Members of the Arizona State Legislature

The Governing Board of
Graham County Community College District

Report on compliance for each major federal program

We have audited Graham County Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on each major federal program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2019.

Other matters

The results of our auditing procedures disclosed instances of noncompliance that is required to be reported in accordance with the Uniform Guidance and that is described in the accompanying schedule of findings and questioned costs as items 2019-101 and 2019-102. Our opinion on the major federal program is not modified with respect to these matters.

Report on internal control over compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-101 and 2019-102, that we consider to be significant deficiencies.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

District's response to finding

The District's responses to the finding identified in our audit is presented in its corrective action plan at the end of this report. The District is responsible for preparing a corrective action plan to address each finding. The District's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on it.

Lindsey Perry, CPA, CFE
Auditor General

March 27, 2020

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of auditors' results

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles	**Unmodified**
Internal control over financial reporting	
Material weakness identified?	**Yes**
Significant deficiency identified?	**Yes**
Noncompliance material to the financial statements noted?	**No**

Federal awards

Internal control over major programs	
Material weakness identified?	**No**
Significant deficiencies identified?	**Yes**
Type of auditors' report issued on compliance for major programs	**Unmodified**
Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?	**Yes**

Identification of major programs

CFDA number	Name of federal program or cluster
	Student Financial Assistance Cluster
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	No

Other matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with 2 CFR §200.511(b)?	Yes

Financial statement findings

2019-01

Managing risk

Condition and context—The District's process for managing its risks did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls.

Criteria—The District's risk assessment process should include identifying, classifying, and inventorying sensitive information to protect it; identifying State statutes and federal regulations that could apply to sensitive information it maintains; and making any required disclosures to affected parties if sensitive information is compromised.

Effect—Without correcting this deficiency, the District's administration and Information Technology (IT) management may put the District's operations and IT systems and data at unintended and unnecessary risk.

Cause—The District updated its data classification policy but because of time constraints was unable to complete its data inventory before the end of the fiscal year.

Recommendation—The District should evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the sensitive information it holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations. To help achieve this, the District should follow guidance from a credible industry source, such as the National Institute of Standards and Technology.

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 2018-01.

2019-02

Information technology controls—access, change management, and security

Condition and context—The District's control procedures were not sufficiently designed, documented, and implemented to respond to risks associated with its IT systems and data. The District lacked adequate procedures over the following:

- **Restricting access to its IT systems and data—**Procedures did not consistently help prevent or detect unauthorized or inappropriate access.
- **Managing system changes—**Procedures did not ensure all changes were adequately managed.
- **Securing systems and data—**IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.

Criteria—The District should have effective internal controls to protect its IT systems and help ensure the integrity and accuracy of the data it maintains:

- **Logical access controls—**Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, and key systems and data access is monitored and reviewed.
- **Well-defined, documented change management process—**Ensures that changes to the District's IT systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the system's security or operation. A post-implementation review should be performed to ensure changes were implemented as designed and approved.
- **IT security internal control policies and procedures—**Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.

Effect—There is an increased risk that the District may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and/or the loss of confidentiality or integrity of systems and data.

Cause—The District was unable to update and implement changes it made to its IT policies and procedures during the fiscal year because of time constraints and a lack of resources. Additionally, the policies and procedures were inconsistently applied.

Recommendation—To help ensure the District has effective policies and procedures over its IT systems and data, the District should follow guidance from a credible industry source, such as the National Institute of Standards and Technology. To help achieve these control objectives, the District should develop, document, and implement control procedures in each IT control area described below:

Access

- Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
- Review all other account access to ensure it remains appropriate and necessary.
- Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
- Enhance authentication requirements for IT systems.

Change management

- Review proposed changes for security impact.
- Document changes, testing procedures and results, change approvals, and post-change review.

Security

- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.

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 2018-02.

Federal award findings and questioned costs

2019-101

Cluster name:	**Student Financial Assistance Cluster**
CFDA numbers and names:	84.007 **Federal Supplemental Educational Opportunity Grants** 84.033 **Federal Work-Study Program** 84.063 **Federal Pell Grant Program**
Award numbers and years:	P007A180114; P033A180114; P063P181064 July 1, 2018 through June 30, 2019
Federal agency:	**U.S. Department of Education**
Compliance requirement:	Special tests and provisions
Questioned costs:	None

Condition and context—The District did not report student enrollment status changes to the National Student Loan Data System (NSLDS) within the required time periods for 9 of 40 students tested. In addition, 1 of the student's status was also reported incorrectly. Although the District did not report these 9 students' enrollment status within the required time period, the student enrollment status changes did not require the students to repay student financial assistance grants.

Criteria—The District is required to report to the NSLDS student enrollment status changes within 30 days of a change or include the change in status in a response to an enrollment-reporting roster file within 60 days for the Federal Pell Grant program. Student enrollment status changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves of absence. (34 Code of Federal Regulations (CFR) §690.83(b)(2)) Also, the District must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and the award terms. (2 CFR §200.303)

Effect—The District's students may not be asked to repay student financial assistance grants if required if the NSLDS does not accurately reflect students' enrollment status changes in a timely manner.

Cause—The District used a third-party servicer to report student enrollment status changes to NSLDS but did not have adequate internal control procedures to verify that changes were reported to the NSLDS in a timely manner

Recommendation—To help ensure that its students are asked to repay student financial assistance grants as required, the District should develop and implement internal control procedures to verify that student enrollment status changes recorded on its student information system and reported to NSLDS by its third-party servicer are accurately and timely reported to the NSLDS within required time periods.

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 2018-101.

2019-102

Cluster name:	**Student Financial Assistance Cluster**
CFDA numbers and names:	84.007 **Federal Supplemental Educational Opportunity Grants** 84.033 **Federal Work-Study Program** 84.063 **Federal Pell Grant Program**
Award numbers and year:	P007A180114; P033A180114; P063P181064 July 1, 2018 through June 30, 2019
Federal agency:	**U.S. Department of Education**
Compliance requirement:	Special tests and provisions
Questioned costs:	Not applicable

Condition and context—The District had no evidence that it had documented a safeguard for each risk identified in its risk assessment of the student financial aid information it maintains.

Criteria—The District's agreement with the U.S. Department of Education requires the District to protect student financial aid information by designating an employee to coordinate its information security program. The District must also perform a risk assessment and document a safeguard for each risk identified. (Gramm-Leach-Bliley Act, 16 CFR §314)

Effect—The District's administration and information technology (IT) management may put the District's operations and IT systems and data, including student financial aid information, at unintended and unnecessary risk.

Cause—The District designated an individual to coordinate its information security program over its student financial aid information but relied on an informal and undocumented process to respond to IT risks.

Recommendation—To help ensure that the District protects student financial aid information, the District should:

- Document and implement a safeguard for each risk identified.
- Monitor the effectiveness of the safeguards' key controls, systems, and procedures on a periodic basis.
- Evaluate and adjust the information security program in light of the testing and monitoring results, any significant changes to the District's operations or business arrangements, and any other circumstances that may have a significant impact on the information security program.

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

Date: March 2, 2020

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying Corrective Action Plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each finding we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Wayne Layton
Director of Fiscal Control and Controller

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2019

Financial statement finding
2019-01
Managing Risk

Name(s) of contact person(s): Thomas Thompson, Chief Information Officer

Anticipated Completion Date: December 31, 2020

District Response: Concur

Corrective Action Planned: The District will continue to identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. It will also evaluate and plan for where resources should be allocated and where critical controls should be implemented. As part of this process, the administration and responsible parties will evaluate and manage risks by identifying, classifying, and inventorying the information the District holds to assess where stronger access and security controls are needed to protect the system and data.

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2019

Financial statement finding
2019-02
Information technology controls – access, change management, and security

Name(s) of contact person(s): Thomas Thompson, Chief Information Officer

Anticipated Completion Date: December 31, 2020

District Response: Concur

Corrective Action Planned: The District will continue to develop, document, and implement control policies and procedures covering the following items and implement where applicable:

- Restricting access to IT systems and data
- Managing system changes
- Securing systems and data

The formalized written policies and procedures will help the District to implement best IT practices and follow industry standards, as well as assist in the training of staff on implementing these policies and procedures. These policies and procedures will also assist in maintaining the integrity of our system and data.

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2019

Federal award findings and questioned costs
2019-101

Cluster name: **Student Financial Assistance Cluster**

CFDA Nos. and names: 84.007 **Federal Supplemental Educational Opportunity Grants**
84.033 **Federal Work-Study Program**
84.063 **Federal Pell Grant Program**

Name(s) of contact person(s): Heston Welker, Vice President of Operations
Jeanne Bryce, Vice President of Academic and Student Affairs

Anticipated Completion Date: December 2020

District Response: Concur

Corrective Action Planned: The District has hired a consultant to assist in developing and implementing procedures to ensure the District can identify and accurately report all student status changes that are required to be reported to NSLDS within the required timeframe. The enrollment reports will also be monitored by the office of the Director of Financial Aid to ensure that enrollment dates are reported accurately and timely.

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2019

Federal award findings and questioned costs
2019-102

Cluster name: **Student Financial Assistance Cluster**

CFDA Nos. and names: 84.007 **Federal Supplemental Educational Opportunity Grants**
84.033 **Federal Work-Study Program**
84.063 **Federal Pell Grant Program**

Name(s) of contact person(s): Sharon Montoya, Director of Financial Aid
Thomas Thompson, Chief Information Officer

Anticipated Completion Date: December 2020

District Response: Concur

Corrective Action Planned: The District will develop and implement policies and procedures to document and safeguard student financial aid information. The District will also provide training to staff to document and monitor safeguards and to periodically evaluate the effectiveness of the safeguards' key controls, systems, and procedures.

EASTERN ARIZONA COLLEGE

March 2, 2020

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying summary schedule of prior audit findings as required by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs. This schedule also includes the status of audit findings reported in the prior audit's summary of schedule of prior audit findings that were not corrected.

Sincerely,

Wayne Layton
Director of Fiscal Control and Controller

Eastern Arizona College
615 North Stadium Avenue, Thatcher, Arizona 85552-0769 ▲ 928·428·8472 ▲ Web: www.eac.edu

Graham County Community College District
(Eastern Arizona College)
Summary schedule of prior audit findings
Year Ended June 30, 2019

Status of financial statement findings

Managing Risk
Finding no.: 2018-01, 2017-01
Status: Partially Corrected

The District continues in its efforts to implement the items contained in the prior year's corrective action plan. The District is making progress in these efforts. However, requirements of operations and system maintenance for our existing system have not allowed for budget and time to fully implement the plan in its entirety.

Information Technology (IT) controls – access, configuration and change management, and security
Finding no.: 2018-02, 2017-02 (security), 2017-03 (access), 2017-04 (configuration and change management)
Status: Partially Corrected

The District continues in its efforts to implement the items contained in the prior year's corrective action plan. The District is making progress in these efforts. However, requirements of operations and system maintenance for our existing system have not allowed for budget and time to fully implement the plan in its entirety.

Graham County Community College District
(Eastern Arizona College)
Summary schedule of prior audit findings
Year Ended June 30, 2019

Status of federal award findings and questioned costs

CFDA no. and program name: 84.007 Federal Supplemental Educational Opportunity Grants
84.033 Federal Work-Study Program
84.063 Federal Pell Grant Program

Finding no.: 2018-101, 2017-101, 2016-101, and 2015-101

Status: Not Corrected

It was determined that the District did not always submit complete data to the third-party servicer and did not effectively monitor the third-party servicer to ensure changes in student statuses were reported accurately to the NSLDS in a timely manner. While certain aspects of this issue have been corrected through additional programming and training, new and additional circumstances and variables continue to arise. To remedy this issue, The District has hired a consultant to assist in developing and implementing procedures to ensure the District can identify and accurately report all student status changes that are required to be reported to NSLDS within the required timeframe.