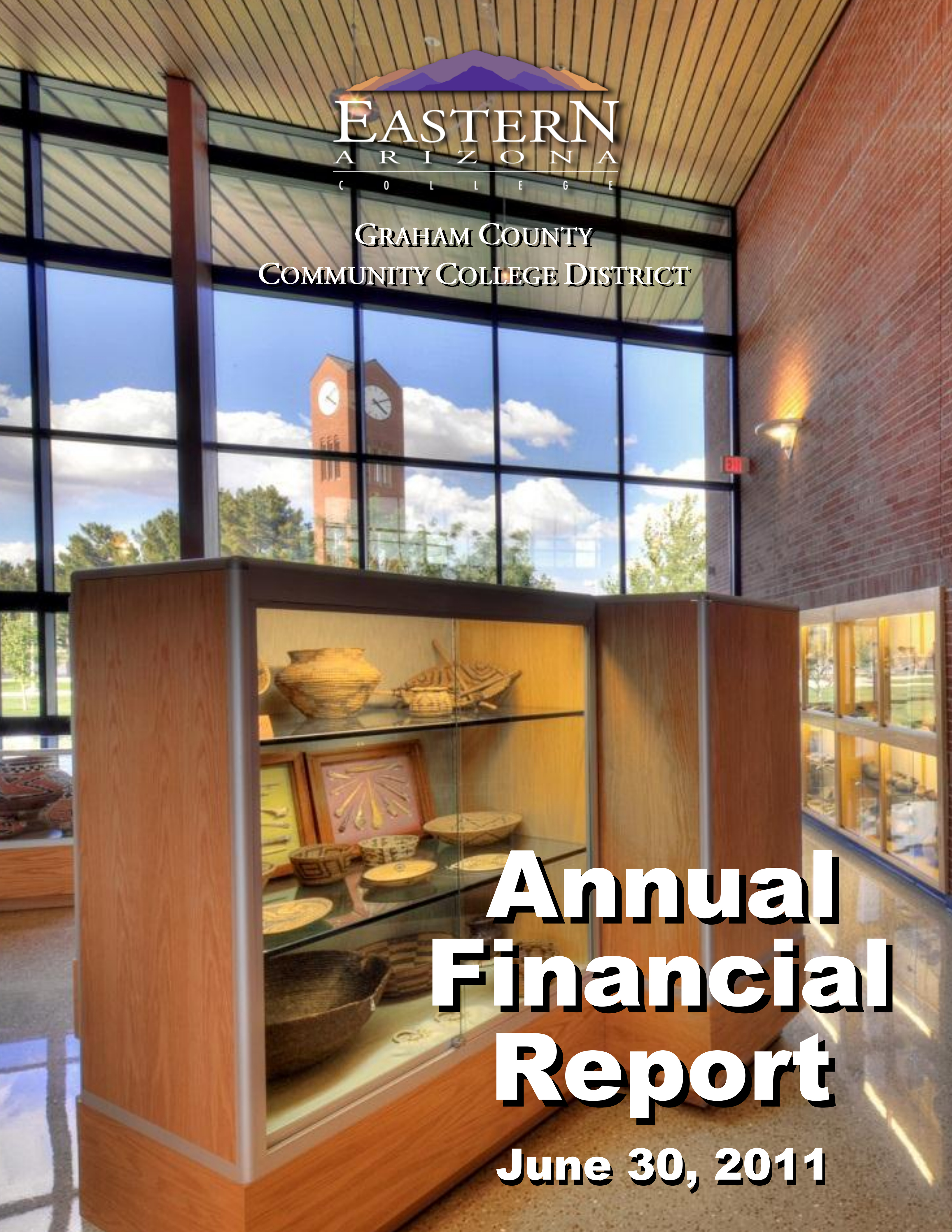

EASTERN ARIZONA COLLEGE

GRAHAM COUNTY
COMMUNITY COLLEGE DISTRICT

Annual Financial Report

June 30, 2011

Graham County
Community College District
(Eastern Arizona College)
Single Audit Reporting Package
June 30, 2011

GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Single Audit Reporting Package
Year Ended June 30, 2011

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Graham County
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(Eastern Arizona College)
Financial Section
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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Graham County Community College District

We have audited the accompanying 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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 financial statements were audited by other auditors whose report thereon 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 report of the other auditors.

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 of material misstatement. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our 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 Graham County Community College District as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 4 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

March 16, 2012

EASTERN
ARIZONA
COLLEGE

Management's Discussion and Analysis

This discussion and analysis provides an overview of the District's financial activities for the year ended June 30, 2011. Please read it in conjunction with the financial statements, which immediately follow.

<u>Basic Financial Statements:</u>

The District's financial statements are presented in accordance with standards established by the Governmental Accounting Standards Board (GASB), the authoritative body for establishing 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 Assets* reflects the financial position of the District at June 30, 2011. It shows the various assets owned, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represents institutional equity or ownership in the total assets of the District.

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects the results of operations and other changes for the year ended June 30, 2011. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net assets amount, which is shown on the *Statement of Net Assets* described above.

The *Statement of Cash Flows* reflects the inflows and outflows of cash and cash equivalents for the year ended June 30, 2011. 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 Assets* described above. In addition, this statement reconciles cash flows from operating activities to operating loss on the *Statement of Revenues, Expenses, and Changes in Net Assets* described above.

Financial Highlights and Analysis:

Consistent with its mission to provide open access to quality higher education, 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 act in a financially conservative manner during the budgetary process, looking to maintain a secure financial future for the institution while bracing for reduced state support. Steady but modest growth is anticipated for the District's future financial position.

Condensed Financial Information:

The condensed financial information below highlights the main categories of the *Statement of Net Assets*. Over time, increases or decreases in net assets 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 discussed below. The result of these variances was a 5% increase in total net assets between fiscal years.

Condensed Schedule of Changes in Net Assets
As of June 30, 2011 and June 30, 2010

	2011	2010	% Change
Assets:			
Current assets	$ 42,858,107	$ 38,473,915	11%
Noncurrent assets			
Capital assets, net	38,798,367	39,342,432	-1%
Total assets	**81,656,474**	**77,816,347**	5%
Liabilities:			
Current liabilities	1,906,161	1,889,369	1%
Noncurrent liabilities	1,437,859	1,044,283	38%
Total liabilities	**3,344,020**	**2,933,652**	14%
Net Assets:			
Invested in capital assets	38,798,367	39,342,432	-1%
Restricted net assets	1,614,013	1,316,074	23%
Unrestricted net assets	37,900,074	34,224,189	11%
Total net assets	**$ 78,312,454**	**$ 74,882,695**	5%

Significant Changes in Assets:

In total, the District's current assets increased by $4,384,192, or 11% from the prior year. Current assets increased primarily due to the District spending less than the revenues received. Cash, the major component of current assets, increased by $4,380,861, which accounts for most of the total increase. Overall, current receivables remained relatively unchanged in total. Property taxes receivable increased by $587,162, which reflects a continued slowing of tax collections during an economic downturn. Government grants and contracts receivable decreased by $927,319, which reflects an improved collection process from Gila County. The District continues to operate prudently while planning ahead for future capital expenditures.

Significant Changes in Liabilities:

Total liabilities increased by $410,368, or 14%. The long-term portion of compensated absences payable increased by $393,576, or 38% over the prior year. This is attributed to an increase in the number of employees who are approaching retirement and that now meet the reporting threshold.

Significant Changes in Net Assets:

Total net assets increased by $3,429,759, or 5%, due to the fact that the Governing Board continues to direct management to accumulate resources for use in financing Master Facilities Plan projects.

The condensed financial information below highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Assets*. The District's operating revenues in relation to its operating expenses generates an operating loss at June 30, 2011. This loss is reflective of the fact that three main revenue sources, property taxes, state appropriations, and government grants are considered nonoperating revenues. For a description of the difference between operating and nonoperating revenues, please refer to the Summary of Significant Accounting Policies (Note 1). Significant variances in revenues and expenses are discussed after the following table.

Condensed Schedule of Changes in Revenues, Expenses, and Net Assets
For the Years Ended June 30, 2011 and 2010

Operating revenues:	**2011**	**2010**	**% Change**
Tuition and fees	$ 3,196,019	$ 3,026,345	6%
Government contracts	4,826,298	4,700,371	3%
Other	1,122,550	1,354,515	-17%
Total operating revenues	**9,144,867**	**9,081,231**	1%
Nonoperating revenues:			
Property taxes	4,558,093	3,942,522	16%
State appropriations	21,709,300	21,709,300	0%
Government grants	9,141,719	7,892,988	16%
Other	480,864	449,101	7%
Total nonoperating revenues	**35,889,976**	**33,993,911**	6%
Total revenues	**45,034,843**	**43,075,142**	5%
Operating expenses:			
Instruction	17,244,472	15,104,321	14%
Academic support	757,516	782,366	-3%
Student services	5,125,516	4,717,714	9%
Institutional support	5,480,467	5,223,396	5%
Operation and maintenance of plant	3,874,577	3,702,914	5%
Scholarships	4,713,562	3,815,783	24%
Auxiliary enterprises	2,660,564	2,413,088	10%
Depreciation	1,748,410	1,601,848	9%
Total operating expenses	**41,605,084**	**37,361,430**	11%
Income before other revenues, expenses, gains, or losses	3,429,759	5,713,712	-40%
Change in net assets	**3,429,759**	**5,713,712**	-40%
Ending net assets	**$ 78,312,454**	**$ 74,882,695**	5%

Significant Changes in Revenues:

The tuition rate was unchanged from the previous year. Despite the fact that student enrollment has increased 10.2% for the year, reported tuition and fees revenue increased by only $169,674, or 6%. This is due to the fact that our scholarship allowance increased by 21% year over year as a percentage of tuition and fees primarily because of additional Pell Grants received by students.

Government contracts revenue increased by $125,927, or 3%, partially due to an increase in the Gila County Provisional Community College District contract of $58,163.

Other operating revenues decreased by $231,965, or 17%, primarily due to the discontinuance at the end of the 2009-10 fiscal year of the Freeport-McMoRan contract that provided a specialized, mining-related training.

Property taxes increased $615,571, or 16%, due to the net effect of a decrease in Graham County assessed valuation of 2.0% and a 19% increase in the primary tax rate. Even though FTSE increased by more than 10%, state appropriations were unchanged from the previous year due to a budget crisis at the state level. Government grants increased by $1,248,731, or 16%, primarily due to the increase in Pell Grants used by students to pay tuition, food service and dormitory fees. Other nonoperating revenues increased 7%, partially due to an increase in investment earnings of $13,320.

Significant Changes in Expenses:

Operating expenses increased by $4,243,654, or 11%. Instruction increased by $2.1 million, or 14%, due mostly to the increase in student enrollment, and scholarship expense increased by $897,779, or 24%, largely due to an increase in Pell Grants.

Current Factors Having Probable Future Financial Significance:

The current budget crisis in the Arizona State Legislature will likely result in decreased support in future years.

In-state tuition will increase by 5.26% beginning in the fall of 2012. As stated in the District's Mission Statement, providing access to quality higher education requires that tuition and related costs remain affordable. Holding tuition level will help in keeping higher education affordable to residents of this small rural community.

Graham County Community College District
(Eastern Arizona College)
Statement of Net Assets – Primary Government
June 30, 2011

	Business-Type Activities
Assets	
Current assets:	
Cash and cash equivalents	$ 38,810,310
Receivables (net of allowance for uncollectibles):	
Property taxes	1,568,878
Government grants and contracts	2,019,212
Other	397,618
Inventories	62,089
Total current assets	**42,858,107**
Noncurrent assets:	
Capital assets, not being depreciated	6,804,729
Capital assets, being depreciated, net	31,993,638
Total noncurrent assets	**38,798,367**
Total assets	**81,656,474**
Liabilities	
Current liabilities:	
Accounts payable	275,390
Accrued payroll and employee benefits	897,512
Deposits held in custody for others	106,571
Deferred revenues	38,120
Current portion of compensated absences payable	588,568
Total current liabilities	**1,906,161**
Noncurrent liabilities:	
Compensated absences payable	1,437,859
Total noncurrent liabilities	**1,437,859**
Total liabilities	**3,344,020**
Net Assets	
Invested in capital assets	38,798,367
Restricted:	
Expendable for workforce development	1,614,013
Unrestricted	37,900,074
Total net assets	**$ 78,312,454**

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Financial Position – Component Unit
June 30, 2011

		Eastern Arizona College Foundation
Assets		
Cash and cash equivalents	$	140,912
Investments		3,779,576
Property and equipment, net		95,629
Museum collection		221,075
Total assets		**4,237,192**
Liabilities		
Accounts payable		1,221
Accrued expenses		14,697
Liability under split-interest agreements		119,937
Total liabilities		**135,855**
Net Assets		
Unrestricted		2,292,926
Temporarily restricted		1,380,874
Permanently restricted		427,537
Total net assets		**4,101,337**
Total Net Assets and Liabilities	**$**	**4,237,192**

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Revenues, Expenses, and Changes in Net Assets – Primary Government
Year Ended June 30, 2011

	Business-Type Activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of $3,834,123)	$ 3,196,019
Government contracts	4,826,298
Private contracts	144,826
Food service income (net of scholarship allowances of $556,737)	299,884
Dormitory rentals and fees (net of scholarship allowances of $339,480)	338,257
Other	339,583
Total operating revenues	**9,144,867**
Operating expenses:	
Educational and general:	
Instruction	17,244,472
Academic support	757,516
Student services	5,125,516
Institutional support	5,480,467
Operation and maintenance of plant	3,874,577
Scholarships	4,713,562
Auxiliary enterprises	2,660,564
Depreciation	1,748,410
Total operating expenses	**41,605,084**
Operating loss	**(32,460,217)**
Nonoperating revenues:	
Property taxes	4,558,093
State appropriations	21,709,300
Government grants	9,141,719
Share of state sales taxes	433,395
Investment earnings	39,098
Gain on disposal of capital assets	8,371
Total nonoperating revenues	**35,889,976**
Increase in net assets	**3,429,759**
Total net assets, July 1, 2010	74,882,695
Total net assets, June 30, 2011	**$ 78,312,454**

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Activities – Component Unit
Year Ended June 30, 2011

	Eastern Arizona College Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Foundation revenue	$ 226,456	$ -	$ -	$ 226,456
Contributions	11,026	231,084	850	242,960
Investment income	203,567	8,203	3,072	214,842
Net realized and unrealized gains				-
(losses) on investments	34,155	111,525	47,298	192,978
Change in value of				-
split-interest agreement	-	18,165	-	18,165
Net assets released from restrictions:				-
Satisfaction of restrictions	201,881	(201,881)	-	-
Total Revenue and Other Support	**677,085**	**167,096**	**51,220**	**895,401**
Expenses				
General and administrative	274,405	-		274,405
Scholarship awards	221,767	-		221,767
Fundraising	19,675	-		19,675
Total Expenses	**515,847**	**-**	**-**	**515,847**
Change in net assets	**161,238**	**167,096**	**51,220**	**379,554**
Net assets at July 1, 2010	2,131,688	1,213,778	376,317	3,721,783
Net Assets at June 30, 2011	**$ 2,292,926**	**$ 1,380,874**	**$ 427,537**	**$ 4,101,337**

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows – Primary Government
Year Ended June 30, 2011

	Business-Type Activities
Cash flows from operating activities	
Tuition and fees	$ 3,196,019
Government contracts	5,748,888
Private contracts	144,826
Food service receipts	299,884
Dormitory rental and fees	338,257
Collection of loans to students	-
Other receipts	(22,121)
Payments to suppliers and providers for goods and services	(10,924,317)
Payments to employees	(23,781,785)
Payments to students for scholarships	(4,713,562)
Net cash used for operating activities	**(29,713,911)**
Cash flows from noncapital financing activities:	
Property taxes	3,970,931
State appropriations	21,709,300
Government grants	9,141,719
Share of state sales taxes	433,395
Deposits held in custody for others received	(3,697)
Net cash provided by noncapital financing activities	**35,251,648**
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	13,033
Purchase of capital assets	(1,209,007)
Net cash used for capital and related financing activities	**(1,195,974)**
Cash flows from investing activities:	
Interest received on investments	39,098
Net cash provided by investing activities	**39,098**
Net increase in cash and cash equivalents	**4,380,861**
Cash and cash equivalents, July 1, 2010	34,429,449
Cash and cash equivalents, June 30, 2011	**$ 38,810,310**

(Continued)

See accompanying notes to financial statements.

(Eastern Arizona College)
Statement of Cash Flows ─ Primary Government
Year Ended June 30, 2011
(Continued)

Reconciliation of operating loss to net cash used for operating activities:	**Business-Type Activities**
Operating loss	$ (32,460,217)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,748,410
Changes in assets and liabilities:	
Increase in:	
Accrued payroll and employee benefits and compensated absences payable	481,963
Other receivables	(361,704)
Decrease in:	
Inventories	18,216
Deferred revenues	(4,729)
Grants and contracts receivable	927,319
Accounts payable	(63,169)
Net cash used for operating activities	**$ (29,713,911)**

See accompanying notes to financial statements.

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Graham County Community College District 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 is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District (the primary government) and its component unit, the Eastern Arizona College Foundation.

The 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 respective counterpart financial statements of the District. 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, 2011, the Foundation distributed $189,812 to the District for both restricted and unrestricted purposes, including administrative and program support and scholarships. In addition, the District paid the Foundation $225,173 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, 3697 W. Church Street, Thatcher, Arizona, 85552.

B. Basis of Presentation and Accounting

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

A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy District obligations. Invested in capital assets represents the value of capital assets net of accumulated depreciation. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, 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 assets 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 assets are reported, including capital contributions. Operating revenues and expenses generally result from exchange transactions such as providing instructional, public, and auxiliary services, which is consistent with the District's mission. Accordingly, revenues such as tuition, government contracts, food service, and dormitory charges are considered to be operating revenues. Other revenues, such as property taxes, state appropriations, and educational grants are not generated from operations and are considered to be 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 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 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 assets are available.

The District follows those FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The District has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

C. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in U.S. Treasury bills and investments in the State Treasurer's Local Government Investment Pool. 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 estimated fair value at the time received. 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. Investment Earnings

Investment earnings are composed of interest.

G. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick-leave earned by employees 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 20 and 44 days. Vacation days in excess of the maximums are forfeited at the end of each month. Upon termination of employment, all unused and unforfeited vacation benefits are paid 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 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.

H. Scholarship Allowances

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

Note 2 – Deposits and Investments

Arizona Revised Statutes (A.R.S.) requires the District to deposit special tax levies for the District's maintenance or capital outlay with the County Treasurer. The statutes do not require the District to deposit other public monies in its custody with the County Treasurer; however, the District must act as a prudent person dealing with the property of another when making investment decisions about those monies. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District’s investments.

Deposits—At June 30, 2011, the carrying amount of the District's deposits was $1,135,252 and the bank balance was $1,458,793. The District does not have a formal policy with respect to custodial credit risk of deposits. As of June 30, 2011, the cash in bank balance was fully insured by the FDIC.

Investments—At June 30, 2011, the fair value of the District's share of the State Treasurer's Local Government Investment Pool 7 was $12,676,268. The State Board of Investment provides oversight for the State Treasurer's pool. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments. In addition, the District owned U.S. Treasury Bills with a book value of $24,998,790 and a maturity value of $25,000,000.

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, 2011, the District's investment in the State Treasurer's Local Government Investment Pool 7 had a weighted average maturity of 47 days. At June 30, 2011, the District's investment in U.S. Treasury Bills had a weighted average maturity of 49 days.

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 6,773,607	$ 27,775	$ -	$ 6,801,382
Construction in progress	3,480,901	-	(3,477,554)	3,347
Total capital assets not being depreciated	10,254,508	27,775	(3,477,554)	6,804,729
Capital assets being depreciated:				
Buildings	41,154,081	3,373,579		44,527,660
Equipment	8,854,815	1,189,866	(119,137)	9,925,544
Improvements other than buildings	2,380,362	50,339		2,430,701
Library materials	817,572	45,002	(11,581)	850,993
Total capital assets being depreciated	53,206,830	4,658,786	(130,718)	57,734,898
Less accumulated depreciation for:				
Buildings	(15,913,208)	(1,031,197)		(16,944,405)
Equipment	(5,753,831)	(606,375)	114,475	(6,245,731)
Improvements other than buildings	(1,848,268)	(71,137)		(1,919,405)
Library materials	(603,599)	(39,701)	11,581	(631,719)
Total accumulated depreciation	(24,118,906)	(1,748,410)	126,056	(25,741,260)
Total capital assets being depreciated, net	29,087,924	2,910,376	(4,662)	31,993,638
Capital assets, net	$ 39,342,432	$ 2,938,151	$ (3,482,216)	$ 38,798,367

The District has no active construction projects and no contractual commitments at June 30, 2011.

Note 4 – Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within one year
Compensated absences payable	$1,554,070	$846,843	$374,486	$2,026,427	$588,568

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.

Note 6 – Pension and Other Postemployment Benefits

Plan Descriptions—The District contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2011, active plan members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent retirement and 0.25 percent long-term disability) of the members' annual covered payroll. The District was required by statute to contribute at the actuarially determined rate of 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premium, and 0.25 percent for long-term disability) of members' annual covered payroll.

The District's contributions for the current and two preceding fiscal years, all of which were equal to the required contributions, were as follows:

Years ended June 30:	Retirement Fund	Health Benefit Supplement Fund	Long – Term Disability Fund	Totals
2011	$1,343,842	$87,999	$37,288	$1,469,129
2010	1,225,911	97,015	58,797	1,381,723
2009	1,183,115	142,151	74,037	1,399,303

Note 7 – Operating Expenses

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

Salaries and benefits	$ 28,316,602
Contract services	2,089,530
Supplies and other services	2,570,164
Communications and utilities	1,395,732
Scholarships	4,713,562
Depreciation	1,748,410
Other	771,084
Total	$ 41,605,084

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 makes use of unrestricted, temporarily restricted and permanently restricted funds, which are all related to the primary objective. 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.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments, which consist of marketable securities in the form of mutual funds, have readily determinable fair values and are reported at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in restricted net assets.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. Contributions are recorded as income in the period received. Unconditional promises to give are booked when the “promise” is received or made, not when the gift is transferred. Conditional promises to give or receive are recorded when the specified future and uncertain event occurs or when the conditions outlined by the donor are substantially met.

Support and investment income that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor-restricted support and investment income are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

The Foundation is exempt from income taxes as a non-profit corporation under Internal

Revenue Code 501(c)(3) and, accordingly, the financial statements do not reflect a provision for income taxes. The Foundation has been classified as a charitable organization that is not a private foundation under Section 509(a)(2).

B. Investments

Investments at June 30, 2011, were comprised of the following:

Equity mutual funds	$ 149,053
Bond mutual funds	51,208
Long-term certificates of deposit	3,579,315
	$ 3,779,576

C. 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 preservation of the collection.

D. Split-Interest Agreement and Gift Annuity

In 1989, the Foundation was named the remainder beneficiary and trustee of a charitable remainder unitrust. The Unitrust beneficiaries will be paid a percentage annually of the fair value of the trust assets in quarterly payments for the rest of their natural lives. At the end of the Trust's term, the remaining assets are available for the Foundation's use. Assets held in the charitable remainder unitrust are reported at fair value and at June 30, 2011, totaled $210,603, (consisting entirely of cash and marketable securities of $10,342 and $200,261, 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 liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments ($81,519 at June 30, 2011) is calculated using the trust rate of 9% and applicable mortality tables.

During fiscal 2009, the Foundation was the recipient of a gift annuity. Under the terms of the gift annuity the donor will be paid $6,000 annually for the remainder of annuitant's natural life. 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, 2011, totaled $97,655 (consisting entirely of cash and long-term certificates of deposit of $10,181 and $87,474, 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 ($38,418 at June 30, 2011) is calculated using the trust rate of 6% and applicable mortality tables.

E. Endowments

Changes in endowment net assets for the year ending June 30, 2011, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$1,535,142	$1,037,708	$376,317	$2,949,167
Contributions		226,045	850	226,895
Investment income	12,656	8,203	3,072	23,931
Net gain (loss) on investments	188,513	111,525	47,298	347,336
Appropriated for expenditure	(65,683)	(196,841)		(262,524)
Endowment net assets, ending	$1,670,628	$1,186,640	$427,537	$3,284,805

F. Concentrations

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

The Foundation’s investments in marketable securities are under the management of one mutual fund manager, TIAA-CREF Mutual Funds of Boston, Massachusetts. The managed investment account is managed by the TIAA-CREF Trust Company, FSB, also of Boston, Massachusetts.

Supplementary Information

GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Passed through the Department of Agriculture Forest Service			
National Forest Foundation	10.682	11-CS-11031202-018	$ 3,908
U.S. Department of Labor			
ARRA-Program of Competitive Grants for Worker Training and			
Placement in High Growth and Emerging Industry Sectors	17.275		136,230
National Science Foundation			
Engineering Grants	47.041		17,570
U.S. Small Business Administration			
Passed through the Maricopa County Community			
College District		0-603001-Z-0003-18	
Small Business Development Centers	59.037	1-603001-Z-0003-19	116,872
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		103,578
Federal Work-Study Program	84.033		231,279
Federal Pell Grant Program	84.063		7,106,066
Academic Competitiveness Grants	84.375		32,396
Total Student Financial Assistance Cluster			7,473,319
TRIO—Student Support Services	84.042		29,708
Passed through the Arizona Department of Education		11FCTDBG-170551-01A	
Career and Technical Education—Basic Grants to States	84.048	10FCTDBG-070551-01A	249,690
Fund for the Improvement of Postsecondary Education	84.116		400,000
Gaining Early Awareness and Readiness for Undergraduate			
Programs	84.334		631,730
Passed through the Arizona Governor's Office of Economic			
Recovery			
ARRA State Fiscal Stabilization Fund—Education			
State Grants, Recovery Act	84.394		11,718
Total U.S. Department of Education			8,796,165
Total Expenditures of Federal Awards			$ 9,070,745

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, 2011

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Graham County Community College District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2011 *Catalog of Federal Domestic Assistance.*

Note 3 - Subrecipients

The District did not pass through any federal awards to subrecipients.

Graham County
Community College District
(Eastern Arizona College)
Single Audit Section
June 30, 2011

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Governing Board of
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, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 16, 2012. 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. Other auditors 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. The financial statements of the Eastern Arizona College Foundation were not audited by the other auditors in accordance with *Government Auditing Standards.* This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

Internal Control over Financial Reporting

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

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Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of 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*.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

March 16, 2012

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Members of the Arizona State Legislature

The Governing Board of
Graham County Community College District

Compliance

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) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in item 11-101 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding procurement and suspension and debarment that are applicable to its ARRA—Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors and the Fund for the Improvement of Postsecondary Education programs. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

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In our opinion, except for the noncompliance described in the preceding paragraph, Graham County Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-101 to be a material weakness.

Graham County Community College District's response to the finding identified in our audit is presented on page 38. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

March 16, 2012

Graham County Community College District
(Eastern Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
	Yes	**No**
Internal control over financial reporting:		
Material weaknesses identified?		X
Significant deficiencies identified?		X (None reported)
Noncompliance material to the financial statements noted?		X

Federal Awards

Internal control over major programs:		
Material weaknesses identified?	X	
Significant deficiencies identified?		X (None reported)

Type of auditors' report issued on compliance for major programs:
Unqualified for the Student Financial Assistance Cluster and qualified for the ARRA—Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors and the Fund for the Improvement of Postsecondary Education programs.

	Yes	No
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	X	

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
17.275	ARRA—Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grants
84.116	Fund for the Improvement of Postsecondary Education

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
	Yes	**No**
Auditee qualified as low-risk auditee?	X	

Other Matters

	Yes	**No**
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?		X

Financial Statement Findings

None reported.

Federal Award Findings and Questioned Costs

11-101
CFDA No.: 17.275 **ARRA—Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors**
U.S. Department of Labor
Award Period/Award Number: June 30, 2010–September 30, 2012/GJ-20649-10-60-A-4

CFDA No.: 84.116 **Fund for the Improvement of Postsecondary Education**
U.S. Department of Education
Award Period/Award Number: September 1, 2010–August 31, 2011/P116Z100008

Procurement and suspension and debarment

Questioned Cost: Unknown

Criteria: In accordance with 2 Code of Federal Regulations (CFR) §215.44, recipients shall establish written procurement procedures. Further, 2 CFR §215.45 states that some form of cost or price analysis shall be performed and documented in the procurement files in connection with every procurement action. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability. In addition, 2 CFR §180.300 states that when a nonfederal entity enters into a procurement transaction to be paid from federal monies that is expected to equal or exceed $25,000, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts.

Condition and context: The District used other governmental entities' contracts to purchase $21,200 and $46,990 of equipment for the two programs listed above, respectively. However, the District had not established due diligence procedures to verify that the other entity used purchasing policies and procedures that were consistent with the District's and that the vendor was providing equitable pricing by performing price analyses. In addition, the District had not established policies and procedures to verify and did not verify that vendors providing goods and services paid with federal monies had not been suspended or debarred, or otherwise excluded, from federal contracts.

Effect: The District did not comply with 2 CFR §§215.44, 215.45, and 180.300. Further, payments could be made to suspended or debarred vendors. In addition, the District is susceptible to overpayments and higher prices. Auditors extended auditing procedures and determined that the vendors used were not suspended or debarred. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the programs' procurement and suspension and debarment requirements.

Cause: The District overlooked implementing due diligence policies and procedures over purchasing cooperatives. Further, the District was not aware of the suspension and debarment aspect of this compliance requirement.

Recommendation: The District should establish due diligence procedures to ensure that purchasing cooperative requirements are in compliance with the District's purchasing policies and that the purchasing cooperative conducts business in an ethical manner. These procedures may include the following:

- Ensure the purchasing cooperative has a compliance review performed regularly.
- Test contracts listed with the purchasing cooperative to ensure the contracts were bid according to the District's procurement policies.
- Review all reports relating to the purchasing cooperative.

The District should document and maintain in the procurement files the due diligence procedures performed prior to using the purchasing cooperative.

Further, the District should establish procedures to verify that vendors are not suspended or debarred or otherwise excluded from federal contracts that equal or exceed $25,000. This verification may be accomplished by performing one of the following:

- Check the *Excluded Parties List System* maintained by the General Services Administration.
- Obtain a certification from the vendor.
- Add a clause or condition to the contract.

Federal Award Findings and Questioned Costs

11-101
CFDA No.: 17.275 ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors (Allied Health)
CFDA No.: 84.116 Fund for the Improvement of Postsecondary Education (Gila Nursing)

Contact: Darwin Weech, Director of Fiscal Control and Controller (928)428-8473
Anticipated completion date: March 31, 2012

District Response: Concur

Corrective Action Planned:

The Director of Grants will develop written purchasing procedures regarding federally funded transactions, equaling or exceeding $25,000, which will require purchasers to review the Excluded Parties List or to perform other acceptable procedures to ensure that all such vendors are in good standing. Also, said procedures will require that all federally funded transactions are subjected to some form of cost or price analysis and that appropriate compliance documentation will be generated.

The Chief Business Officer will develop due diligence procedures designed to ensure that utilized cooperative procurement contracts meet or exceed District purchasing thresholds and ethical standards and that such procedures are properly documented.