



Graham County Community College District

Annual Financial Report

June 30, 2007

Graham County
Community College District
(Eastern Arizona College)
Single Audit Reporting Package
June 30, 2007

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Single Audit Reporting Package
Year Ended June 30, 2007**

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**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Single Audit Reporting Package
Year Ended June 30, 2007**

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**Graham County
Community College District**
(Eastern Arizona College)
Financial Section
June 30, 2007



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
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, 2007, 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, 2007, 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 3 through 7 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.

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 24, 2008, 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 24, 2008



Management's Discussion and Analysis

This discussion and analysis provides an overview of the District's financial activities for the year ended June 30, 2007. Please read it in conjunction with the 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 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, 2007. 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, 2007. 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, 2007. 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, 2007 and June 30, 2006

	<u>2007</u>	<u>2006*</u>	<u>% Change</u>
Assets:			
Current assets	\$26,699,424	\$21,861,261	22%
Noncurrent assets			
Capital assets, net	<u>36,296,097</u>	<u>37,256,476</u>	-3%
Total assets	<u>62,995,521</u>	<u>59,117,737</u>	7%
Liabilities:			
Other liabilities	1,200,252	800,302	50%
Long-term liabilities	<u>1,309,731</u>	<u>930,843</u>	41%
Total liabilities	<u>2,509,983</u>	<u>1,731,145</u>	45%
Net Assets:			
Invested in capital assets	36,296,097	37,256,477	-3%
Restricted net assets	560,398	136,384	311%
Unrestricted net assets	<u>23,629,043</u>	<u>19,993,731</u>	18%
Total net assets	<u>\$60,485,538</u>	<u>\$57,386,592</u>	5%

*As restated – See Notes 2 & 4 of the financial statements.

Significant Changes in Assets:

In total, the District's current assets increased by \$4,838,163, or 22% from the prior year. Current Assets increased primarily due to the District spending less than the revenues received. The District continues to operate prudently while planning ahead for future capital expenditures.

The District restated its beginning net assets to include capital assets of the Discovery Park, a blended component unit, as described in Note 2 to the financial statements. This restatement increased the District's capital assets by the following; land by \$1,450,000, buildings by \$1,243,807, equipment by \$140,000, and improvements other than buildings by \$81,136. Also, for normal District operations, the District purchased capital assets during the fiscal year in the amount of \$631,821, as described in Note 4 to the financial statements.

Significant Changes in Liabilities:

Other Liabilities increased \$399,950, or 50% from the prior year. This increase is primarily due to an increase of \$120,942 in accounts payable and an increase of \$225,180 in accrued payroll and employee benefits, which was primarily due to the timing of payments to vendors and payroll related disbursements. Long term-liabilities increased \$378,888, or 41% because the number of employees who were expected to become eligible in the future for sick benefits increased, thereby increasing compensated absences payable.

Significant Changes in Net Assets:

Restricted net assets increased \$424,014, or 311% from the prior fiscal year. This is due to incurring very few workforce development expenditures during the year while receiving \$508,959 in revenue.

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 their operating expenses generates an operating loss at June 30, 2007. This loss is reflective of the fact that two of the three main revenue sources, property taxes and state appropriations, 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, 2007 and 2006***

Operating revenues:	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Tuition and fees	\$2,834,659	\$2,359,549	20%
Government grants and contracts	8,115,118	7,533,936	8%
Other	<u>1,260,960</u>	<u>1,187,451</u>	6%
Total operating revenues	<u>12,210,737</u>	<u>11,080,936</u>	10%
Nonoperating revenues:			
Property taxes	2,378,329	2,208,418	8%
State appropriations	16,874,400	15,787,500	7%
Other	<u>1,798,342</u>	<u>1,251,798</u>	44%
Total nonoperating revenues	<u>21,051,071</u>	<u>19,247,716</u>	9%
Total revenues	<u>33,261,808</u>	<u>30,328,652</u>	10%
Operating expenses:			
Instruction	12,255,518	10,036,252	22%
Academic support	746,704	612,037	22%
Student services	3,658,104	3,171,801	15%
Institutional support	5,032,100	4,946,894	2%
Operation and maintenance of plant	3,504,101	2,986,014	17%
Scholarships	1,625,778	2,115,291	-23%
Auxiliary enterprises	2,274,157	2,254,540	1%
Depreciation	<u>1,592,200</u>	<u>1,526,157</u>	4%
Total operating expenses	<u>30,688,662</u>	<u>27,648,986</u>	11%
Income before other revenues, expenses, gains, or losses	<u>2,573,146</u>	<u>2,679,666</u>	-4%
Capital appropriations	525,800	535,700	-2%
Change in net assets	<u>3,098,946</u>	<u>3,215,366</u>	-4%
Ending net assets	<u>\$60,485,538</u>	<u>\$57,386,592*</u>	5%

*As restated – See Note 2 of the financial statements.

Significant Changes in Revenues:

Tuition and fees increased \$475,110, or 20%, primarily due to the District receiving \$234,386 more tuition from the State than the previous year for students outside of Graham County. Also, the District fee revenue increased \$181,465 due to increased enrollment in courses offered with a large fee amount. The courses which caused the largest amount of fee increases over the prior year were cosmetology courses, web courses, and nursing related courses.

Government grants and contracts revenue also increased 8% due to the District's contract with Gila Community College. The contract with Gila County increased almost entirely due to increased salary and benefits paid to employees working at the Gila County locations.

The other section of nonoperating revenues increased by 44% primarily due to increased investment earnings from the District's investment in the State Treasurer's Local Government Investment Pool.

Significant Changes in Expenses:

Operating expenses increased by \$3,039,676 or 11%. A major portion of that increase was due to salaries and benefits increasing \$2,435,272, or 14%. Factors that led to the increase in salaries and benefits were employee longevity step increases, a 3.4% inflationary wage increase, increase in insurance premiums, cash flex benefits, and an increase in the Arizona State Retirement rate from the previous year. Scholarship expense decreased \$489,513 or 23% as the average Pell Grant amount awarded to students declined in fiscal year 2006-07.

Current Factors Having Probable Future Financial Significance:

In-state tuition will increase by \$40 to \$650 per semester in 2008. Residence hall and dining plan costs will also reflect a modest increase for 2008. As stated in the District's Mission Statement, providing access to quality higher education requires that tuition and related costs remain affordable, and modest increases result in partially offsetting the cumulative operating loss while 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, 2007**

	Business-Type Activities
Assets	
Current assets:	
Cash and cash equivalents	\$24,343,207
Receivables (net of allowance for uncollectibles):	
Property taxes	210,276
Government grants and contracts	1,680,954
Student loans	76,616
Interest	170,402
Other	138,696
Inventories	79,273
Total current assets	26,699,424
Noncurrent assets:	
Capital assets, not being depreciated	4,896,623
Capital assets, being depreciated, net	31,399,474
Total noncurrent assets	36,296,097
Total assets	62,995,521
Liabilities	
Current liabilities:	
Accounts payable	261,887
Accrued payroll and employee benefits	706,260
Deposits held in custody for others	112,674
Deferred revenues	119,431
Current portion of compensated absences payable	540,807
Total current liabilities	1,741,059
Noncurrent liabilities:	
Compensated absences payable	768,924
Total noncurrent liabilities	768,924
Total liabilities	2,509,983
Net Assets	
Invested in capital assets	36,296,097
Restricted:	
Expendable for workforce development	560,398
Unrestricted	23,629,043
Total net assets	\$60,485,538

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Financial Position – Component Unit
June 30, 2007**

	<u>Eastern Arizona College Foundation</u>
Assets	
Cash and cash equivalents	\$ 59,159
Investments	2,398,904
Property and equipment, net	100,104
Museum collection	221,075
Total assets	<u>2,779,242</u>
Liabilities	
Accounts payable	515
Accrued expenses	9,081
Charitable remainder unitrust liability	139,161
Total liabilities	<u>148,757</u>
Net Assets	
Unrestricted	1,343,235
Temporarily restricted	882,516
Permanently restricted	404,734
Total net assets	<u>2,630,485</u>
Total Net Assets and Liabilities	<u>\$2,779,242</u>

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, 2007**

	Business-Type Activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of \$1,804,118)	\$ 2,834,659
Government grants and contracts	8,115,118
Private grants and contracts	232,097
Food service income (net of scholarship allowances of \$426,435)	356,548
Dormitory rentals and fees (net of scholarship allowances of \$254,314)	345,570
Other	326,745
Total operating revenues	12,210,737
Operating expenses:	
Educational and general:	
Instruction	12,255,518
Academic support	746,704
Student services	3,658,104
Institutional support	5,032,100
Operation and maintenance of plant	3,504,101
Scholarships	1,625,778
Auxiliary enterprises	2,274,157
Depreciation	1,592,200
Total operating expenses	30,688,662
Operating loss	(18,477,925)
Nonoperating revenues:	
Property taxes	2,378,329
State appropriations	16,874,400
Share of state sales taxes	508,959
Investment earnings	1,266,829
Gain on disposal of capital assets	22,554
Total nonoperating revenues	21,051,071
Income before other revenues, expenses, gains or losses	2,573,146
Capital appropriations	525,800
Increase in net assets	3,098,946
Total net assets, July 1, 2006, as restated	57,386,592
Total net assets, June 30, 2007	\$60,485,538

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Activities – Component Unit
Year Ended June 30, 2007**

	Eastern Arizona College Foundation			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue and Other Support				
Foundation revenue	\$193,561			\$193,561
Contributions	96,858	\$171,253	\$ 600	268,711
Investment income	172,587	101,503	66,755	340,845
Change in value of split-interest agreement		68,664		68,664
Net assets released from restrictions:				
Satisfaction of restrictions	132,727	(122,017)	(10,710)	
Total Revenue and Other Support	595,733	219,403	56,645	871,781
Expenses				
General and administrative	231,960			231,960
Scholarship awards	149,103			149,103
Fundraising	17,061			17,061
Total Expenses	398,124			398,124
Change in net assets	197,609	219,403	56,645	473,657
Net assets at July 1, 2006	1,145,626	663,113	348,089	2,156,828
Net Assets at June 30, 2007	\$1,343,235	\$882,516	\$404,734	\$2,630,485

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows – Primary Government
Year Ended June 30, 2007**

	Business-Type Activities
Cash flows from operating activities	
Tuition and fees	\$ 2,834,659
Government grants and contracts	7,685,850
Private grants and contracts	232,097
Food service receipts	356,548
Dormitory rental and fees	345,570
Other receipts	408,768
Payments of loans to students	(25,526)
Payments to suppliers and providers for goods and services	(7,504,074)
Payments to employees	(19,241,680)
Payments to students for scholarships	(1,625,778)
Net cash used for operating activities	(16,533,566)
Cash flows from noncapital financing activities:	
Property taxes	2,400,490
State appropriations	16,874,400
Share of state sales taxes	508,959
Deposits held in custody for others received	189,164
Deposits held in custody for others disbursed	(185,723)
Net cash provided by noncapital financing activities	19,787,290
Cash flows from capital and related financing activities:	
Capital appropriations	525,800
Proceeds from sale of capital assets	22,554
Purchase of capital assets	(631,821)
Net cash used for capital and related financing activities	(83,467)
Cash flows from investing activities:	
Interest received on investments	1,219,886
Net cash provided by investing activities	1,219,886
Net increase in cash and cash equivalents	4,390,143
Cash and cash equivalents, July 1, 2006, as restated	19,953,064
Cash and cash equivalents, June 30, 2007	\$24,343,207
	(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, 2007
(Continued)**

Reconciliation of operating loss to net cash used for operating activities:	Business-Type Activities
Operating loss	\$(18,477,925)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,592,200
Changes in assets and liabilities:	
Increase in:	
Government grants and contracts receivable	(479,655)
Student loans receivable	(25,526)
Inventories	(80)
Deferred revenues	50,387
Accounts payable	120,942
Accrued payroll and employee benefits and compensated absences payable	604,068
Decrease in:	
Other receivables	82,023
Net cash used for operating activities	<u><u>\$(16,533,566)</u></u>

See accompanying notes to financial statements.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2007**

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 units.

Component units are legally separate entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the District's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are discretely presented in the District's financial statements to emphasize they are legally separate from the District. Both of the component units described below have a June 30 year end.

The Mount Graham International Science and Cultural Foundation, Incorporated, known as Discovery Park (the Park), is a legally separate entity. The Park operates as a visitor's center for the Mt. Graham International Observatory and as a multi-purpose educational facility for the District. The District's Board of Governors serves as the governing board of the Park. The Park is reported as a blended component unit in the District's financial statements. Separate financial statements for the Park are not available.

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,

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2007**

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.

During the year ended June 30, 2007, the Foundation distributed \$190,646 to the District for both restricted and unrestricted purposes, including administrative and program support and scholarships. In addition the District paid the Foundation \$190,000 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, 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 providing instructional, public, and auxiliary services, which is consistent with the District's mission. Accordingly, revenues such as tuition, educational grants, food service, and dormitory charges are considered to be operating revenues. Other revenues, such as property taxes and state appropriations, 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

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2007**

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 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, and investments in the State Treasurer's Local Government Investment Pool.

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 and improvements, infrastructure, construction in progress, equipment, and library materials. 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:

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2007**

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 building	\$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, dividends, and net changes in the fair value of applicable investments.

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 have met the sick leave vesting 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. Those amounts are 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.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2007**

Note 2 – Net Asset Beginning Balances Restated

The District restated beginning net assets of its business-type activities for the inclusion of the Discovery Park, which is a blended component unit of the District. Although the Park should have been included in the prior year, its financial information was omitted from the District’s previously reported financial statements because complete records for the park were not readily available. This resulted in the following restatement:

	Business-Type Activities
Net assets – June 30, 2006, as previously reported	\$54,384,967
Correction of error	3,001,625
Net assets – July 1, 2006, as restated	\$57,386,592

Note 3 – 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, 2007, the carrying amount of the District's deposits was \$282,081, and the bank balance was \$811,423.

Investments—At June 30, 2007, the fair value of the District’s share of the State Treasurer’s Local Government Investment Pool 7 was \$24,061,126.

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.

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, 2007, the District’s investment in the State

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2007**

Treasurer's Local Government Investment Pool 7 had a weighted average maturity of 49 days.

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 4,891,346			\$ 4,891,346
Construction in progress		\$ 5,277		5,277
Total capital assets not being depreciated	4,891,346	5,277		4,896,623
Capital assets being depreciated:				
Buildings	40,669,464	125,660		40,795,124
Equipment	7,774,094	427,297	\$ (702,920)	7,498,471
Improvements other than buildings	2,210,373	31,467		2,241,840
Library materials	771,984	42,120	(26,460)	787,644
Total capital assets being depreciated	51,425,915	626,544	(729,380)	51,323,079
Less accumulated depreciation for:				
Buildings	(12,052,424)	(966,080)		(13,018,504)
Equipment	(4,917,624)	(498,834)	702,920	(4,713,538)
Improvements other than buildings	(1,489,968)	(95,336)		(1,585,304)
Library materials	(600,769)	(31,950)	26,460	(606,259)
Total accumulated depreciation	(19,060,785)	(1,592,200)	\$ 729,380	(19,923,605)
Total capital assets being depreciated, net	32,365,130	(965,656)		31,399,474
Capital assets, net	\$ 37,256,476	\$ (960,379)		\$ 36,296,097

The July 1, 2006 capital asset balance was restated to include Discovery Park's land, buildings, equipment, and improvements other than buildings. The Park had been omitted from the District's previously reported financial statements as explained in Note 2.

Note 5 – Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2007:

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2007**

	Balance July 1, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2007</u>	Due within <u>one year</u>
Compensated absences payable	\$930,843	\$598,396	\$219,508	\$1,309,731	\$540,807

Note 6 – 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 7 – Retirement Plan

Plan Description—The District contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. 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, 2007, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2007, 2006, and 2005 were \$1,155,748,

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2007**

\$838,747, and \$550,058, respectively, which were equal to the required contributions for the year.

Note 8 – 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	\$19,845,746
Contract services	1,717,749
Supplies and other services	2,235,485
Communications and utilities	1,434,320
Scholarships	1,625,778
Depreciation	1,592,200
Other	<u>2,237,384</u>
Total	<u>\$30,688,662</u>

Note 9 – 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 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.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2007**

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 unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

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, 2007, were comprised of the following:

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2007**

Equity mutual funds	\$1,712,449
Bond mutual funds	677,101
Managed allocation mutual funds	9,354
	\$2,398,904

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.

D. Charitable Remainder Unitrust Split-Interest Agreement

On January 1, 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, 2007, totaled \$297,080, (consisting entirely of cash and marketable securities of \$16,472 and \$280,608, respectively). 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 (\$139,161 at June 30, 2007) is calculated using the trust rate of 9% and applicable mortality tables.

E. Restrictions on Net Assets

Restricted net assets are available for the following purposes:

	Temporarily Restricted	Permanently Restricted
Scholarships	\$721,095	\$404,734
Charitable Remainder Unitrust	161,421	
	\$882,516	\$404,734

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 of \$100,000.

All of the Foundation's investments in marketable securities are under the management of one mutual fund manager, TIAA-CREF Mutual Funds of Boston, Massachusetts.

Supplementary Information

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Transportation			
Passed through the Arizona Department of Transportation			
Highway Planning and Construction	20.205	06-017-S	\$ <u>4,163</u>
U.S. Small Business Administration			
Passed through the Maricopa County Community College District			
Small Business Development Center	59.037	7-603001-Z-0003- 15	<u>48,658</u>
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		113,935
Federal Work-Study Program	84.033		231,259
Federal Pell Grant Program	84.063		2,345,878
Academic Competitiveness Grants	84.375		19,900
Total Student Financial Assistance Cluster			<u>2,710,972</u>
TRIO—Student Support Services	84.042		222,532
Passed through the Arizona Department of Education			
Adult Education—State Grant Program	84.002	07FAEABE- 770551-02A	36,400
Vocational Education—Basic Grants to States	84.048	07FCTDBG- 770551-03A	264,331
Passed through the Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	1599382,1969290	10,651
Passed through the Graham County School Superintendent			
Education Technology State Grants	84.318	07FBPETD- 770673-01A	19,984
Total U.S. Department of Education			<u>3,264,870</u>
Total Expenditures of Federal Awards			<u>\$3,317,691</u>

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, 2007**

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 2007 *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, 2007



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
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, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 24, 2008. Our report was modified to include a reference to our reliance on 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. 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more

than a remote likelihood that a misstatement of the District's basic financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider items 07-01 and 07-02 described in the Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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*.

Graham County Community College District's responses to the findings identified in our audit are presented on pages 35 through 36. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, 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 24, 2008



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance with Requirements
Applicable to 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 the compliance of Graham County Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The District's major federal program is 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 its major federal program 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.

In our opinion, Graham County Community College District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying Schedule of Findings and Questioned Costs as item 07-101.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in the District's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider item 07-101 described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Graham County Community College District's responses to the findings identified in our audit are presented on pages 35 through 36. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, 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 24, 2008

Graham County Community College District
(Eastern Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
	Yes	No
Material weaknesses identified in internal control over financial reporting?	___	<u>X</u>
Significant deficiencies identified not considered to be material weaknesses	<u>X</u>	___
Noncompliance material to the financial statements noted?	___	<u>X</u>

Federal Awards

Material weaknesses identified in internal control over major programs?	___	<u>X</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>X</u>	___
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___

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
84.375	Academic Competitiveness Grants

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000	
Auditee qualified as low-risk auditee?	___	<u>X</u>

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	___	<u>X</u>
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Graham County Community College District
(Eastern Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Financial Statement Findings

07-01

The District should improve its internal controls over financial reporting

The District should report accurate information to the public and agencies from which it receives funding. However, in its fiscal year 2006 financial statements, the District did not fully accomplish this objective. In June 2006, the Mount Graham International Science and Cultural Foundation (Discovery Park) was donated to the District, and the District's Board became the Discovery Park's Board making it a blended component unit of the District. However, for financial reporting purposes, the District was not able to obtain the necessary financial information in a timely manner and did not include the Park's financial transactions in its fiscal year 2006 financial statements. In its fiscal year 2007 financial statements, the District corrected this omission and restated beginning net assets to include the Park's \$3 million in net assets.

To help ensure that the District's financial statements are prepared accurately and in accordance with generally accepted accounting principles, the District should establish procedures to analyze and research the accounting and reporting requirements in a timely manner for all financial activities of the District, including new and nonrecurring transactions.

07-02

The District should develop written policies and procedures over capital assets

The District has invested a significant amount of money in its capital assets. Adequate written policies and procedures help safeguard capital assets against theft, loss, and misuse and are critical for maintaining proper stewardship and accountability of capital assets. Auditors noted that the District did not have adequate written policies and procedures governing its capital assets or a process in place to ensure specific necessary procedures were performed to effectively accomplish these objectives.

To help safeguard and properly account for its capital assets, the District should develop and implement written policies and procedures that include specific procedures that require and explain the following:

- A physical inventory of capital assets should be taken at least every two years. In addition, instructions for taking a physical inventory of capital assets should be developed. These procedures should include steps to ensure that the inventory is performed by an employee independent of capital asset purchasing, custodial, and recordkeeping duties.
- All District capital items with unit costs of \$5,000 or more should be properly recorded in the District's records and documentation supporting the purchase should be retained.
- All capital equipment items should be affixed with a District identification tag.
- District's capital asset records should be updated and reconciled to financial records on a regular and timely basis. The employee responsible for updating the capital asset records should not have access to updating the District's financial accounting system.
- Capital asset disposals should be properly approved by an appropriate District official and documentation supporting the disposal should be retained.

Graham County Community College District
(Eastern Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Federal Award Findings and Questioned Costs

07-101 Student Financial Assistance Cluster CFDA No: 84.007 Federal Supplemental Educational Opportunity Grants 84.033 Federal Work-Study Program 84.063 Federal Pell Grant Program 84.375 Academic Competitiveness Grants U.S. Department of Education Award Year: July 1, 2006 through June 30, 2007 Cash Management	Questioned Cost: N/A
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The District did not have adequate internal controls over cash management to identify when positive cash balances existed and did not have procedures to ensure that any excess balances were eliminated in accordance with student financial assistance federal requirements. Auditors noted that the District had a positive cash balance of as much as \$19,200 within its Federal Supplemental Educational Opportunity Grants account for approximately one month during a peak enrollment period and \$11,500 within its Pell Grant account for approximately one month during a nonpeak enrollment period. The District was not aware that these positive cash balances existed and did not perform any procedures to determine if any of these excess monies should be returned to the federal grantor. No costs were questioned as a result of this deficiency because the District did not have positive cash balances within the student financial assistance cluster in total, the excess monies were eliminated through reductions in the next month's reimbursement requests, and any interest earnings were less than \$250.

To comply with the *Student Financial Aid Handbook*, volume 4, chapter 3, the District should improve its internal control procedures so that it closely monitors cash balances of its student financial assistance programs. If positive cash balances exist, the District should follow federal guidelines to eliminate the excess cash balances. Specifically, as required by the Handbook, the District should not maintain positive cash balances for more than three business days. However, the Handbook does allow excess cash tolerances as long as the positive cash balances are less than 3 percent of the prior year's draw downs during a peak enrollment period or less than 1 percent of the prior year's draw downs during a nonpeak enrollment period and are eliminated within seven calendar days.



March 18, 2008

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Timothy E. Curtis
Chief Business Officer

GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Corrective Action Plan
Year Ended June 30, 2007

Financial Statement Findings

07-01

The District should improve its internal controls over financial reporting

Contact person - Darwin Weech

Anticipated completion date - June 30, 2008

Preface: The acquisition of a separate entity has never happened in the history of EAC. By the time the lack of adequate records in the acquired entity became evident, it was too late to rectify the situation using an alternate valuation method. This required that we restate beginning assets to include Discovery Park at July 1, 2006.

Planned corrective action: The gift acceptance procedures will be modified to include a review of financial records for adequacy to accommodate proper financial reporting.

07-02

The District should develop written policies and procedures over capital assets

Contact person - Darwin Weech

Anticipated completion date - July 31, 2008

Planned corrective action: Capital asset procedures have been reviewed and revised. We believe we have already implemented the needed changes. In addition, a documented inventory of all capital assets will be completed by July 31, 2008.

Federal Award Findings and Questioned Costs

07-101

CFDA No.: 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

Cash Management

Contact person - Darwin Weech

Anticipated completion date - immediately

Preface: EAC operates on a "reimbursement basis" with Federal Programs (i.e. we distribute the money to students and then get reimbursed from the Federal Program on a monthly basis. On occasion, after EAC has been reimbursed for these distributions, some student awards may be cancelled and the money must be returned to the Federal Program. If during the month the cancellations exceed the new awards, there may be a positive cash balance in the program account.

Planned corrective action: The Controller will communicate with the Financial Aid office regarding expected cancellations for the coming month before drawing reimbursement funds. An amount less than the full available reimbursement will be drawn to allow for any expected net cancellations.