

**Graham County**  
**Community College District**  
(Eastern Arizona College)  
Single Audit Reporting Package  
June 30, 2008

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Single Audit Reporting Package  
Year Ended June 30, 2008**

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**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Single Audit Reporting Package  
Year Ended June 30, 2008**

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**Graham County  
Community College District**  
(Eastern Arizona College)  
Financial Section  
June 30, 2008



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, 2008, 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, 2008, 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.

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*, for the year ended June 30, 2008, which represent changes in 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.

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 27, 2009, 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 27, 2009



## **Management's Discussion and Analysis**

This discussion and analysis provides an overview of the District's financial activities for the year ended June 30, 2008. 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, 2008. 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, 2008. 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, 2008. 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 7% increase in total net assets between fiscal years.

*Condensed Schedule of Changes in Net Assets  
As of June 30, 2008 and June 30, 2007*

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
<b>Assets:</b>			
Current assets	\$ 30,003,545	\$ 26,699,424	12%
Noncurrent assets			
Capital assets, net	<u>37,457,319</u>	<u>36,296,097</u>	3%
<b>Total assets</b>	<b><u>67,460,864</u></b>	<b><u>62,995,521</u></b>	7%
<b>Liabilities:</b>			
Other liabilities	1,871,559	1,741,059	7%
Long-term liabilities	<u>832,525</u>	<u>768,924</u>	8%
<b>Total liabilities</b>	<b><u>2,704,084</u></b>	<b><u>2,509,983</u></b>	8%
<b>Net Assets:</b>			
Invested in capital assets	37,457,319	36,296,097	3%
Restricted net assets	880,291	560,398	57%
Unrestricted net assets	<u>26,419,170</u>	<u>23,629,043</u>	12%
<b>Total net assets</b>	<b><u>\$ 64,756,780</u></b>	<b><u>\$ 60,485,538</u></b>	7%



Significant Changes in Assets:

In total, the District's current assets increased by \$3,304,121, or 12% from the prior year. Current assets increased primarily due to the District spending less than the revenues received and because the receivable from Gila County Provisional Community College District for services provided had increased by \$1,269,127 to \$2,444,318 at June 30, 2008. The District continues to operate prudently while planning ahead for future capital expenditures.

Significant Changes in Liabilities:

Other liabilities increased by \$130,500, or 7%, which is mostly due to an increase in accounts payable, because of the timing of payments to vendors. Long term-liabilities increased \$63,601, or 8% primarily due to a 6.5% increase in the base salary rate of all district employees, thereby increasing compensated absences payable.

Significant Changes in Net Assets:

Restricted net assets increased \$319,893, or 57% from the prior fiscal year. This is due to incurring very few workforce development expenditures during the year while receiving \$498,183 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, 2008. 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, 2008 and 2007***

<b>Operating revenues:</b>	<b>2008</b>	<b>2007*</b>	<b>% Change</b>
Tuition and fees	\$ 2,941,470	\$ 2,834,659	4%
Government contracts	5,253,898	4,345,277	21%
Other	1,487,254	1,260,960	18%
<b>Total operating revenues</b>	<b><u>9,682,622</u></b>	<b><u>8,440,896</u></b>	15%
<b>Nonoperating revenues:</b>			
Property taxes	2,670,996	2,378,329	12%
State appropriations	18,516,900	16,874,400	10%
Government grants	3,273,842	3,769,841	-13%
Other	1,964,027	1,798,342	9%
<b>Total nonoperating revenues</b>	<b><u>26,425,765</u></b>	<b><u>24,820,912</u></b>	6%
<b>Total revenues</b>	<b><u>36,108,387</u></b>	<b><u>33,261,808</u></b>	9%
<b>Operating expenses:</b>			
Instruction	13,247,990	12,255,518	8%
Academic support	735,034	746,704	-2%
Student services	3,855,130	3,658,104	5%
Institutional support	5,269,745	5,032,100	5%
Operation and maintenance of plant	3,716,181	3,504,101	6%
Scholarships	1,526,617	1,625,778	-6%
Auxiliary enterprises	2,468,137	2,274,157	9%
Depreciation	1,528,411	1,592,200	-4%
<b>Total operating expenses</b>	<b><u>32,347,245</u></b>	<b><u>30,688,662</u></b>	5%
Income before other revenues, expenses, gains, or losses	<u>3,761,142</u>	<u>2,573,146</u>	46%
Capital appropriations	510,100	525,800	-3%
<b>Change in net assets</b>	<b>4,271,242</b>	<b>3,098,946</b>	38%
<b>Ending net assets</b>	<b><u>\$ 64,756,780</u></b>	<b><u>\$ 60,485,538</u></b>	7%

\* Government grant revenues were reclassified to nonoperating revenues for comparison purposes.

### Significant Changes in Revenues:

Tuition and fees increased by \$106,811, or 4%, due to an increase of 6.5% in instate tuition rates. Government contracts increased by \$908,621, or 21%, mostly due to an increase in the Gila County Provisional Community College District contract of \$974,620. The Gila County revenue increased because salaries and benefits for employees working at those locations increased by 6.5% for the year and because student enrollment increased in Gila County. The Other section of operating revenues increased by \$226,294, or 18%, primarily due to increased revenue from a contract for a mining operations training program with Freeport McMoRan, and increased food service and dormitory fees.

Property taxes increased \$292,637, or 12%, due to an increase in Graham County assessed valuation of over 14%. State appropriations increased \$1,642,500, or 10%, mainly due to an increase in equalization aid. Government grants decreased by \$495,999, or 13%, primarily due to the decline in Pell Grants and Basic Grant monies received and the discontinued participation in Adult Education grants. The Other section of nonoperating revenues increased by 9%, primarily due to a gain on sale of District owned real estate.

### Significant Changes in Expenses:

Operating expenses increased by \$1,658,583, or 5%. A major portion of that increase was due to salaries and benefits increasing 6.5%.

### Capital Assets

The district purchased two land parcels for a total of \$2,063,614. This land is being held for possible future needs.

### Current Factors Having Probable Future Financial Significance:

In-state tuition will increase by \$40 to \$690 per semester beginning in the fall of 2008. Residence hall and dining plan costs will also reflect a modest increase beginning in the fall of 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, 2008**

	<b>Business-Type Activities</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 26,448,636
Receivables (net of allowance for uncollectibles):	
Property taxes	182,002
Government grants and contracts	2,779,998
Student loans	10,110
Interest	112,668
Other	387,480
Inventories	82,651
<b>Total current assets</b>	<b>30,003,545</b>
Noncurrent assets:	
Capital assets, not being depreciated	6,656,739
Capital assets, being depreciated, net	30,800,580
<b>Total noncurrent assets</b>	<b>37,457,319</b>
<b>Total assets</b>	<b>67,460,864</b>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	427,311
Accrued payroll and employee benefits	727,808
Deposits held in custody for others	86,762
Deferred revenues	95,095
Current portion of compensated absences payable	534,583
<b>Total current liabilities</b>	<b>1,871,559</b>
Noncurrent liabilities:	
Compensated absences payable	832,525
<b>Total noncurrent liabilities</b>	<b>832,525</b>
<b>Total liabilities</b>	<b>2,704,084</b>
<b>Net Assets</b>	
Invested in capital assets	37,457,319
Restricted:	
Expendable for workforce development	880,291
Unrestricted	26,419,170
<b>Total net assets</b>	<b>\$ 64,756,780</b>

See accompanying notes to financial statements.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Financial Position – Component Unit  
June 30, 2008**

	<b>Eastern Arizona College Foundation</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,069,837
Investments	2,313,629
Property and equipment, net	97,941
Museum collection	221,075
<b>Total assets</b>	<b>3,702,482</b>
<b>Liabilities</b>	
Accounts payable	1,793
Accrued expenses	7,131
Charitable remainder unitrust liability	105,835
<b>Total liabilities</b>	<b>114,759</b>
<b>Net Assets</b>	
Unrestricted	2,311,489
Temporarily restricted	878,802
Permanently restricted	397,432
<b>Total net assets</b>	<b>3,587,723</b>
<b>Total Net Assets and Liabilities</b>	<b>\$ 3,702,482</b>

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, 2008**

	<u><b>Business-Type Activities</b></u>
<b>Operating revenues:</b>	
Tuition and fees (net of scholarship allowances of \$1,852,221)	\$ 2,941,470
Government contracts	5,253,898
Private contracts	380,770
Food service income (net of scholarship allowances of \$445,827)	393,472
Dormitory rentals and fees (net of scholarship allowances of \$273,221)	405,966
Other	307,046
<b>Total operating revenues</b>	<u><b>9,682,622</b></u>
<b>Operating expenses:</b>	
Educational and general:	
Instruction	13,247,990
Academic support	735,034
Student services	3,855,130
Institutional support	5,269,745
Operation and maintenance of plant	3,716,181
Scholarships	1,526,617
Auxiliary enterprises	2,468,137
Depreciation	1,528,411
<b>Total operating expenses</b>	<u><b>32,347,245</b></u>
<b>Operating loss</b>	<b>(22,664,623)</b>
<b>Nonoperating revenues:</b>	
Property taxes	2,670,996
State appropriations	18,516,900
Government grants	3,273,842
Share of state sales taxes	498,183
Investment earnings	972,250
Gain on disposal of capital assets	493,594
<b>Total nonoperating revenues</b>	<u><b>26,425,765</b></u>
Income before other revenues, expenses, gains or losses	3,761,142
Capital appropriations	<u>510,100</u>
<b>Increase in net assets</b>	<b>4,271,242</b>
Total net assets, July 1, 2007	60,485,538
<b>Total net assets, June 30, 2008</b>	<u><b>\$ 64,756,780</b></u>

See accompanying notes to financial statements.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Activities – Component Unit  
Year Ended June 30, 2008**

	Eastern Arizona College Foundation			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue and Other Support</b>				
Foundation revenue	\$ 221,149			\$ 221,149
Contributions	1,015,779	153,953	900	1,170,632
Investment income	5,711	(388)	(2)	5,321
Change in value of split-interest agreement		(16,045)		(16,045)
Net assets released from restrictions:				
Satisfaction of restrictions	149,434	(141,234)	(8,200)	
<b>Total Revenue and Other Support</b>	<b>1,392,073</b>	<b>(3,714)</b>	<b>(7,302)</b>	<b>1,381,057</b>
<b>Expenses</b>				
General and administrative	242,630			242,630
Scholarship awards	165,472			165,472
Fundraising	15,717			15,717
<b>Total Expenses</b>	<b>423,819</b>	<b>-</b>	<b>-</b>	<b>423,819</b>
<b>Change in net assets</b>	<b>968,254</b>	<b>(3,714)</b>	<b>(7,302)</b>	<b>957,238</b>
Net assets at July 1, 2007	1,343,235	882,516	404,734	2,630,485
<b>Net Assets at June 30, 2008</b>	<b>\$ 2,311,489</b>	<b>\$ 878,802</b>	<b>\$ 397,432</b>	<b>\$ 3,587,723</b>

See accompanying notes to financial statements.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Cash Flows – Primary Government  
Year Ended June 30, 2008**

	<b>Business-Type Activities</b>
<b>Cash flows from operating activities</b>	
Tuition and fees	\$ 2,941,470
Government contracts	4,130,518
Private grants and contracts	380,770
Food service receipts	393,472
Dormitory rental and fees	405,966
Other receipts	124,769
Payments to suppliers and providers for goods and services	(7,796,339)
Payments to employees	(21,254,908)
Payments to students for scholarships	(1,526,617)
<b>Net cash used for operating activities</b>	<b>(22,200,899)</b>
 <b>Cash flows from noncapital financing activities:</b>	
Property taxes	2,699,270
State appropriations	18,516,900
Government grants	3,273,842
Share of state sales taxes	498,183
Deposits held in custody for others disbursed	(25,912)
<b>Net cash provided by noncapital financing activities</b>	<b>24,962,283</b>
 <b>Cash flows from capital and related financing activities:</b>	
Capital appropriations	510,100
Proceeds from sale of capital assets	896,114
Purchase of capital assets	(3,092,153)
<b>Net cash used for capital and related financing activities</b>	<b>(1,685,939)</b>
 <b>Cash flows from investing activities:</b>	
Interest received on investments	1,029,984
<b>Net cash provided by investing activities</b>	<b>1,029,984</b>
 <b>Net increase in cash and cash equivalents</b>	<b>2,105,429</b>
Cash and cash equivalents, July 1, 2007	24,343,207
<b>Cash and cash equivalents, June 30, 2008</b>	<b>\$ 26,448,636</b>

(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, 2008  
(Continued)**

<b>Reconciliation of operating loss to net cash used for operating activities:</b>	<b>Business-Type Activities</b>
Operating loss	\$ (22,664,623)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,528,411
Changes in assets and liabilities:	
Increase in:	
Government grants and contracts receivable	(1,099,044)
Other receivables	(248,784)
Inventories	(3,378)
Accounts payable	165,424
Accrued payroll and employee benefits and compensated absences payable	78,925
Decrease in:	
Student loans receivable	66,506
Deferred revenues	(24,336)
<b>Net cash used for operating activities</b>	<b><u><u>\$ (22,200,899)</u></u></b>

Noncash investing, capital, and noncapital financing activities:

The District sold assets with a net book value of \$402,520, resulting in a gain on disposal of \$493,594.

See accompanying notes to financial statements.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2008**

**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).

For the year ended June 30, 2008, the District implemented the provisions of GASB Statement Nos. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions; and 50, Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27). GASB Statement No. 45 establishes governmental employer accounting and financial reporting requirements for postemployment benefits other than pensions. GASB Statement No. 50 amends GASB Statement Nos. 25 and 27 to require governmental employers to present certain additional pension disclosures in the notes.

**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 and a blended component unit.

However, all assets of the Park were transferred to the District on April 16, 2008. The Park had no operations during the year. The District's Board of Governors serves as the governing board of the Park.

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,

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June 30, 2008**

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.

During the year ended June 30, 2008, the Foundation distributed \$188,804 to the District for both restricted and unrestricted purposes, including administrative and program support and scholarships. In addition the District paid the Foundation \$214,000 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 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

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Notes to Financial Statements  
June 30, 2008**

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 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

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
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June 30, 2008**

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:

<b>Asset Category</b>	<b>Capitalization Threshold</b>	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Land	\$1	Not applicable	Not applicable
Buildings	\$5,000	Straight-line	15-40 years
Improvements other than buildings	\$5,000	Straight-line	5-25 years
Equipment	\$5,000	Straight-line	5-15 years
Library materials	\$1	Straight-line	10 years
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.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
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June 30, 2008**

**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, 2008, the carrying amount of the District's deposits was \$242,230, and the bank balance was \$758,389.

**Investments**—At June 30, 2008, the fair value of the District's share of the State Treasurer's Local Government Investment Pool 7 was \$26,206,406. 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, 2008, the District's investment in the State Treasurer's Local Government Investment Pool 7 had a weighted average maturity of 23 days.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2008**

**Note 3 – Capital Assets**

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Balance July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Capital assets not being depreciated:				
Land	\$ 4,891,346	\$ 2,063,614	\$ (398,616)	\$ 6,556,344
Construction in progress	5,277	95,118		100,395
Total capital assets not being depreciated	<u>4,896,623</u>	<u>2,158,732</u>	<u>(398,616)</u>	<u>6,656,739</u>
Capital assets being depreciated:				
Buildings	40,795,124	296,547		41,091,671
Equipment	7,498,471	538,379	(196,513)	7,840,337
Improvements other than buildings	2,241,840	53,631		2,295,471
Library materials	787,644	44,864	(29,601)	802,907
Total capital assets being depreciated	<u>51,323,079</u>	<u>933,421</u>	<u>(226,114)</u>	<u>52,030,386</u>
Less accumulated depreciation for:				
Buildings	(13,018,504)	(969,714)		(13,988,218)
Equipment	(4,713,538)	(428,177)	192,609	(4,949,106)
Improvements other than buildings	(1,585,304)	(96,150)		(1,681,454)
Library materials	(606,259)	(34,370)	29,601	(611,028)
Total accumulated depreciation	<u>(19,923,605)</u>	<u>(1,528,411)</u>	<u>222,210</u>	<u>(21,229,806)</u>
Total capital assets being depreciated, net	31,399,474	(594,990)	(3,904)	30,800,580
Capital assets, net	<u>\$ 36,296,097</u>	<u>\$ 1,563,742</u>	<u>\$ (402,520)</u>	<u>\$ 37,457,319</u>

**Note 4 – Long-Term Liabilities**

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Due within one year</u>
Compensated absences payable	\$1,309,731	\$643,487	\$586,110	\$1,367,108	\$534,583

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2008**

**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, 2008, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The District was required by statute to contribute at the actuarially determined rate of 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of members' annual covered payroll.



**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2008**

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
2008	\$1,105,580	\$144,206	\$68,670	\$1,318,456
2007	958,890	133,355	63,503	1,155,748
2006	653,996	128,079	56,672	838,747

**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	\$ 21,254,908
Contract services	1,887,255
Supplies and other services	2,300,194
Communications and utilities	1,553,844
Scholarships	1,526,617
Depreciation	1,528,411
Other	2,296,016
Total	<u>\$ 32,347,245</u>

**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 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)

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2008**

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 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).

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2008**

**B. Investments**

Investments at June 30, 2008, were comprised of the following:

Equity mutual funds	\$1,627,213
Bond mutual funds	686,416
	\$2,313,629

**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, 2008, totaled \$246,588, (consisting entirely of cash and marketable securities of \$16,092 and \$230,495, 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 (\$105,835 at June 30, 2008) 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	\$733,425	\$397,432
Charitable Remainder Unitrust	145,377	
	\$878,802	\$397,432

**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, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Transportation</b>			
Passed through the Arizona Department of Transportation			
Highway Planning and Construction	20.205	06-017-S	<u>\$ 1,950</u>
<b>U.S. Small Business Administration</b>			
Passed through the Maricopa County Community College District			
Small Business Development Center	59.037	8-603001-Z-0003-16-01, 7-603001-Z-0003-15	<u>77,118</u>
<b>U.S. Department of Education</b>			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		103,500
Federal Work-Study Program	84.033		231,251
Federal Pell Grant Program	84.063		2,131,126
Academic Competitiveness Grants	84.375		14,350
Total Student Financial Assistance Cluster			<u>2,480,227</u>
TRIO—Student Support Services	84.042		245,113
Passed through the Arizona Department of Education			
Career and Technical Education—Basic Grants to States	84.048	08FCTDBG-870551-01A	206,674
Passed through the Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	3822,4813,4984	26,704
Passed through the Graham County School Superintendent			
Education Technology State Grants	84.318	07FBPETD-770673-01A	37
Total U.S. Department of Education			<u>2,958,755</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,037,823</u></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, 2008**

**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 2008 *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, 2008



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, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 27, 2009. Our report was modified to include a reference to our reliance on other auditors and as to consistency because of the implementation of Governmental Accounting Standards Board Statement Nos. 45 and 50. 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

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 item 08-01 described in the Schedule of Findings and Questioned Costs to be a significant deficiency 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we don't believe the significant deficiency 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 page 37. 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, management, 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 27, 2009



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, 2008. 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, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133, and that is described in the accompanying Schedule of Findings and Questioned Costs as item 08-101.

## 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 a certain deficiency 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 08-101 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 page 37. 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, management, 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 27, 2009

Graham County Community College District  
(Eastern Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2008

**Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued:	Unqualified	
	<b>Yes</b>	<b>No</b>
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, 2008

## Financial Statement Findings

08-01

### **The District should strengthen internal controls over purchasing**

The District purchased equipment, materials, supplies, and services that totaled approximately \$11 million this fiscal year. Therefore, the District should develop and implement comprehensive purchasing policies and procedures to help ensure that it receives quality goods and services at the best possible price. The District's governing board is responsible to establish procurement policies in accordance with Arizona Revised Statutes (A.R.S.) §15-1444, which states that governing boards may establish policies in conjunction with other Arizona college districts. Also, the District is responsible for ensuring that board members and employees comply with A.R.S. §38-503, Conflict of Interest of Officers and Employees. However, auditors found that the District had not developed adequate procurement policies and procedures concerning competitive bidding practices and did not inform employees regarding conflict of interest requirements, including requiring them to make it known when they have substantial interests, such as ownership, in vendors from which the District might purchase goods and services.

#### *Competitive Bidding*

According to Arizona community college district procurement laws, district governing boards are responsible for establishing purchasing policies in conjunction with other Arizona college districts. Although not required, other Arizona districts' governing boards have established purchasing policies that follow the stringent and detailed competitive procurement laws that apply to State government agencies as outlined in the Arizona Procurement Code. Some districts policies are even more stringent than the Arizona Procurement Code. However, the District's policies and procedures are far less stringent when compared to the State's procurement code and other districts' policies. For example, the District's policies allowed the District's Executive Vice President to approve purchases over \$25,000 without the purchases being competitively bid or obtaining verbal or written price quotations. Also, the District's policies did not require the District to maintain written documentation justifying why competitive purchasing practices were not followed such as for emergency purchases or when no other vendors could efficiently provide the goods or services. Auditors noted that the District entered into contracts and made purchases, including a \$160,000 purchase to renovate and redecorate a home located on campus and a \$200,000 contract for student educational services that were approved by the Executive Vice President. However, the District did not obtain competitive bids or price quotations and did not document the reasons why competitive bidding practices were not followed.

#### *Conflicts of Interest*

The District is responsible for ensuring that board members and employees comply with A.R.S. §38-503, Conflict of Interest of Officers and Employees. This requires that all district board members or employees (full-time, part-time, or on contract basis) who have or whose relatives have a substantial interest in any district contract, sale, purchase, service, or decision disclose those interests. The interest must be disclosed in writing and retained in a public file exclusively for that purpose with the District. In addition, according to statute, a board member or employee who has such a conflict must refrain from participating

Graham County Community College District  
(Eastern Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2008

in or voting on such matters. However, the District did not have adequate written procedures that require board members or employees to report on a regular basis to the District any substantial interest with potential district vendors and to ensure that board members or employees with substantial interests were not involved in approving or making purchases from those vendors.

The District should strengthen its internal controls over purchasing. Specifically, the District should ensure that it implements and follows the following procedures:

*Competitive Bidding*

- Strengthen existing district procurement policies and procedures to follow the Arizona Procurement Code and best practices of other college districts including provisions for requiring competitive procurement practices. When emergencies exist or when there is only one vendor that can efficiently provide the goods and services maintain written documentation that clearly explains the reasons and benefits when competitive procurement practices are not followed.

*Conflicts of Interest*

- Require all current board members and employees, at least annually, to review the conflict of interest statement form to determine if their current circumstances require them to revise their prior disclosure or disclose a substantial interest for the first time.
- Create a comprehensive and easily accessible list of board members and employees who have disclosed substantial interests in potential vendors.
- Communicate to board members and employees with substantial interests in potential vendors that they are required to remove themselves from any purchasing decisions concerning those vendors.

Graham County Community College District  
(Eastern Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2008

Federal Award Findings and Questioned Costs

08-101

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, 2007 through June 30, 2008

Cash Management

Questioned Cost: N/A

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 \$47,700 within its Pell Grant account for approximately 15 days during a nonpeak enrollment period. No costs were questioned as a result of this deficiency because the excess monies were eliminated through reductions in the next months' 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, the Handbook requires that the District should not maintain positive cash balances for more than 3 business days. However, the Handbook does allow for excess cash 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 7 calendar days.

GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Corrective Action Plan  
Year Ended June 30, 2008

**Financial Statement Findings**

08-01

The District should strengthen internal controls over purchasing  
Contact person - Darwin Weech  
Anticipated completion date - July 1, 2009

*Competitive Bidding*

The District will document the rationale for purchases over \$25,000 when competitive bidding is not utilized.

*Conflicts of Interest*

The District will inform Board members and employees annually of their obligation to report any conflicts of interest and request that they provide or update information.

The District will ensure that the Conflict of Interest file is updated as new information is received and that a list of employees or Board members with conflicts of interest will be created.

The District will develop policies and procedures to comply with conflict of interest requirements.

**Federal Award Findings and Questioned Costs**

08-101

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

Cash Management

Contact person - Darwin Weech

Anticipated completion date - already completed

Fully corrected as of April, 2008.





February 18, 2009

Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport,

The accompanying Summary Schedule of Prior Audit Finding has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

Darwin J. Weech, CPA, CGFM  
Controller

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2008**

Status of Federal Award Findings and Questioned Costs

Finding No.: 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

Status: Fully corrected as of April, 2008.