

Graham County
Community College District
(Eastern Arizona College)
Single Audit Reporting Package
June 30, 2009

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Single Audit Reporting Package
Year Ended June 30, 2009**

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**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Single Audit Reporting Package
Year Ended June 30, 2009**

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**Graham County
Community College District**
(Eastern Arizona College)
Financial Section
June 30, 2009



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, 2009, 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, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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

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, 2010, 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, 2010



Management's Discussion and Analysis

This discussion and analysis provides an overview of the District's financial activities for the year ended June 30, 2009. 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, 2009. 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, 2009. 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, 2009. 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, 2009 and June 30, 2008*

	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Assets:			
Current assets	\$ 34,728,021	\$ 30,003,545	16%
Noncurrent assets			
Capital assets, net	<u>37,176,969</u>	<u>37,457,319</u>	-1%
Total assets	<u>71,904,990</u>	<u>67,460,864</u>	7%
Liabilities:			
Other liabilities	1,886,489	1,871,559	1%
Long-term liabilities	<u>849,518</u>	<u>832,525</u>	2%
Total liabilities	<u>2,736,007</u>	<u>2,704,084</u>	1%
Net Assets:			
Invested in capital assets	37,176,969	37,457,319	-1%
Restricted net assets	1,296,138	880,291	47%
Unrestricted net assets	<u>30,695,876</u>	<u>26,419,170</u>	16%
Total net assets	<u>\$ 69,168,983</u>	<u>\$ 64,756,780</u>	7%

Significant Changes in Assets:

In total, the District's current assets increased by \$4,724,476, or 16% from the prior year. Current assets increased primarily due to the District spending less than the revenues received. Cash, the major component of current assets, increased by \$4,186,565 comprising most of the increase. In addition, property taxes receivable increased by \$262,910, reflecting the slowing of tax collections during an economic downturn. The District continues to operate prudently while planning ahead for future capital expenditures.

Significant Changes in Liabilities:

There were no significant changes in liabilities for the year.

Significant Changes in Net Assets:

Restricted net assets increased \$415,847, or 47% from the prior fiscal year. This is due to incurring very few workforce development expenses during the year while receiving \$433,747 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 its operating expenses generates an operating loss at June 30, 2009. 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, 2009 and 2008***

Operating revenues:	2009	2008	% Change
Tuition and fees	\$ 3,258,408	\$ 2,941,470	11%
Government contracts	6,359,186	5,253,898	21%
Other	1,612,915	1,487,254	8%
Total operating revenues	<u>11,230,509</u>	<u>9,682,622</u>	16%
Nonoperating revenues:			
Property taxes	3,328,985	2,670,996	25%
State appropriations	19,548,597	18,516,900	6%
Government grants	5,880,374	3,273,842	80%
Other	656,618	1,964,027	-67%
Total nonoperating revenues	<u>29,414,574</u>	<u>26,425,765</u>	11%
Total revenues	<u>40,645,083</u>	<u>36,108,387</u>	13%
Operating expenses:			
Instruction	15,040,677	13,247,990	14%
Academic support	869,259	735,034	18%
Student services	4,628,347	3,855,130	20%
Institutional support	5,456,054	5,269,745	4%
Operation and maintenance of plant	4,031,691	3,716,181	8%
Scholarships	2,010,262	1,526,617	32%
Auxiliary enterprises	2,645,203	2,468,137	7%
Depreciation	1,551,387	1,528,411	2%
Total operating expenses	<u>36,232,880</u>	<u>32,347,245</u>	12%
Income before other revenues, expenses, gains, or losses	<u>4,412,203</u>	<u>3,761,142</u>	17%
Capital appropriations	-	510,100	-100%
Change in net assets	4,412,203	4,271,242	3%
Ending net assets	<u>\$ 69,168,983</u>	<u>\$ 64,756,780</u>	7%

Significant Changes in Revenues:

Tuition and fees increased by \$316,938, or 11%, due to an increase of 6.2% in in-state tuition rates and an 18% increase in student enrollment. Government contracts increased by \$1,105,288, or 21%, mostly due to an increase in the Gila County Provisional Community College District contract of \$1,126,393. The Gila County revenue increased because salaries and benefits for employees working at those locations increased by 5.25% for the year and because student enrollment increased in Gila County. The Other section of operating revenues increased by \$125,661, or 8%, primarily due to increased food service and dormitory fees.

Property taxes increased \$657,989, or 25%, due to an increase in Graham County assessed valuation of 29.7%. In connection with this large increase in assessed valuation, there was also a 6.13% decrease in the primary tax rate. State appropriations increased by \$1,031,697, or 6%, mainly due to an increase in equalization aid. Government grants increased by \$2,606,532, or 80%, primarily due to the increase in Pell Grants related to the increase in student enrollment of 18% mentioned above. In addition, the College received over \$1.7 million from three new grants related to fiscal stabilization, distance learning, and early awareness for high school students. The Other section of nonoperating revenues decreased by 67%, primarily due to a decrease in investment earnings of \$760,932 and a gain on sale of District owned real estate in the prior year.

Significant Changes in Expenses:

Operating expenses increased by \$3,885,635, or 12%. A significant portion of that increase was due to salaries and benefits increasing 5.25%. In addition, expenses of over \$1.5 million were incurred to operate three new grants related to fiscal stabilization, distance learning, and early awareness for high school students. Scholarship expense increased by \$483,645, largely due to an increase in Pell grants. Bad debt expense related to increased student receivables and retirement payouts also added to the increased expenses.

Current Factors Having Probable Future Financial Significance:

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

In-state tuition will not increase but will remain unchanged beginning in the fall of 2010. As stated in the District's Mission Statement, providing access to quality higher education requires that tuition and related costs remain affordable. Holding tuition level will help in keeping higher education affordable to residents of this small rural community.

**Graham County Community College District
(Eastern Arizona College)
Statement of Net Assets – Primary Government
June 30, 2009**

	Business-Type Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 30,635,201
Receivables (net of allowance for uncollectibles):	
Property taxes	444,912
Government grants and contracts	3,336,356
Student loans	10,020
Interest	24,427
Other	205,000
Inventories	72,105
Total current assets	34,728,021
Noncurrent assets:	
Capital assets, not being depreciated	6,959,730
Capital assets, being depreciated, net	30,217,239
Total noncurrent assets	37,176,969
Total assets	71,904,990
Liabilities	
Current liabilities:	
Accounts payable	445,808
Accrued payroll and employee benefits	777,382
Deposits held in custody for others	103,295
Deferred revenues	77,341
Current portion of compensated absences payable	482,663
Total current liabilities	1,886,489
Noncurrent liabilities:	
Compensated absences payable	849,518
Total noncurrent liabilities	849,518
Total liabilities	2,736,007
Net Assets	
Invested in capital assets	37,176,969
Restricted:	
Expendable for workforce development	1,296,138
Unrestricted	30,695,876
Total net assets	\$ 69,168,983

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Financial Position – Component Unit
June 30, 2009**

	Eastern Arizona College Foundation
Assets	
Cash and cash equivalents	\$ 1,020,498
Investments	1,995,209
Property and equipment, net	95,942
Museum collection	221,075
Total assets	3,332,724
 Liabilities	
Accounts payable	316
Accrued expenses	8,838
Liability under split-interest agreements	112,870
Total liabilities	122,024
 Net Assets	
Unrestricted	2,070,493
Temporarily restricted	800,738
Permanently restricted	339,469
Total net assets	3,210,700
Total Net Assets and Liabilities	\$ 3,332,724

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, 2009**

	Business-Type Activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of \$2,584,780)	\$ 3,258,408
Government contracts	6,359,186
Private contracts	386,622
Food service income (net of scholarship allowances of \$489,564)	401,725
Dormitory rentals and fees (net of scholarship allowances of \$287,214)	426,123
Other	398,445
Total operating revenues	11,230,509
Operating expenses:	
Educational and general:	
Instruction	15,040,677
Academic support	869,259
Student services	4,628,347
Institutional support	5,456,054
Operation and maintenance of plant	4,031,691
Scholarships	2,010,262
Auxiliary enterprises	2,645,203
Depreciation	1,551,387
Total operating expenses	36,232,880
Operating loss	(25,002,371)
Nonoperating revenues:	
Property taxes	3,328,985
State appropriations	19,548,597
Government grants	5,880,374
Share of state sales taxes	433,747
Investment earnings	211,318
Gain on disposal of capital assets	11,553
Total nonoperating revenues	29,414,574
Increase in net assets	4,412,203
Total net assets, July 1, 2008	64,756,780
Total net assets, June 30, 2009	\$ 69,168,983

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Activities – Component Unit
Year Ended June 30, 2009**

	Eastern Arizona College Foundation			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue and Other Support				
Foundation revenue	\$ 215,954	\$ -	\$ -	\$ 215,954
Contributions	18,150	121,404	800	140,354
Gift annuity contribution	-	58,005	-	58,005
Investment income	(190,695)	(92,448)	(45,003)	(328,146)
Change in value of split-interest agreement	-	(33,336)	-	(33,336)
Net assets released from restrictions:				
Satisfaction of restrictions	145,449	(131,689)	(13,760)	-
Total Revenue and Other Support	188,858	(78,064)	(57,963)	52,831
Expenses				
General and administrative	250,447	-		250,447
Scholarship awards	163,198	-		163,198
Fundraising	16,209	-		16,209
Total Expenses	429,854	-	-	429,854
Change in net assets	(240,996)	(78,064)	(57,963)	(377,023)
Net assets at July 1, 2008	2,311,489	878,802	397,432	3,587,723
Net Assets at June 30, 2009	\$ 2,070,493	\$ 800,738	\$ 339,469	\$ 3,210,700

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows – Primary Government
Year Ended June 30, 2009**

	Business-Type Activities
Cash flows from operating activities	
Tuition and fees	\$ 3,258,408
Government contracts	5,785,074
Private contracts	386,622
Food service receipts	401,725
Dormitory rental and fees	426,123
Other receipts	581,015
Payments to suppliers and providers for goods and services	(11,015,877)
Payments to employees	(21,611,666)
Payments to students for scholarships	(2,010,262)
Net cash used for operating activities	(23,798,838)
 Cash flows from noncapital financing activities:	
Property taxes	3,066,075
State appropriations	19,548,597
Government grants	5,880,374
Share of state sales taxes	433,747
Deposits held in custody for others received	16,533
Net cash provided by noncapital financing activities	28,945,326
 Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	11,553
Purchase of capital assets	(1,271,037)
Net cash used for capital and related financing activities	(1,259,484)
 Cash flows from investing activities:	
Interest received on investments	299,561
Net cash provided by investing activities	299,561
 Net increase in cash and cash equivalents	4,186,565
 Cash and cash equivalents, July 1, 2008	26,448,636
Cash and cash equivalents, June 30, 2009	\$ 30,635,201

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2009
(Continued)**

Reconciliation of operating loss to net cash used for operating activities:	Business-Type Activities
Operating loss	\$ (25,002,371)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,551,387
Changes in assets and liabilities:	
Increase in:	
Government grants and contracts receivable	(556,358)
Accounts payable	18,496
Accrued payroll and employee benefits and compensated absences payable	14,647
Decrease in:	
Student loans receivable	90
Deferred revenues	(17,754)
Other receivables	182,479
Inventories	10,546
Net cash used for operating activities	<u><u>\$ (23,798,838)</u></u>

See accompanying notes to financial statements.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2009**

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Graham County Community College District conform to generally accepted accounting principles applicable to public institutions engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

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

The Foundation is a legally separate, tax-exempt organization. It acts primarily as a fund-raising organization that receives gifts and bequests, administers those resources, and disburses payments to or on behalf of the District for scholarships and programs. Although the District does not control the timing or amount of receipts from the Foundation, the Foundation's restricted resources can only be used by, or for the benefit of, the District or its constituents. Consequently, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board (FASB) statements for not-for-profit organizations. As such certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the District. For financial reporting purposes, only the Foundation's statements of financial position and activities are included in the District's financial statements as required by generally accepted accounting principles for public colleges and universities. The Foundation has a June 30 year end.

During the year ended June 30, 2009, the Foundation distributed \$204,673 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.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2009**

B. Basis of Presentation and Accounting

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

A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy District obligations. Invested in capital assets represents the value of capital assets net of accumulated depreciation. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

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

A statement of cash flows provides information about the District's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as 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.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2009**

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

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

Asset Category	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$1	Not applicable	Not applicable
Buildings	\$5,000	Straight-line	15-40 years
Improvements other than buildings	\$5,000	Straight-line	5-25 years
Equipment	\$5,000	Straight-line	5-15 years
Library materials	\$1	Straight-line	10 years
Infrastructure	\$5,000	Straight-line	50-75 years

F. Investment Earnings

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

G. Compensated Absences

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2009**

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.

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.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2009**

Deposits—At June 30, 2009, the carrying amount of the District's deposits was \$10,037,899 and the bank balance was \$10,242,360. In October 2008, the Federal Deposit Insurance Corporation (FDIC) authorized the Temporary Liquidity Guarantee Program (TLGP) to assist in the stabilization of the nation's financial system. Under the Transaction Account Guarantee, a component of the TLGP, the FDIC guarantees all funds held in qualifying non-interest-bearing transaction accounts at participating insured depository institutions. As of June 30, 2009, the cash in bank balance was fully insured by the FDIC. The District does not have a formal policy with respect to custodial credit risk of deposits.

Investments—At June 30, 2009, the fair value of the District's share of the State Treasurer's Local Government Investment Pool 7 was \$20,597,302. 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, 2009, the District's investment in the State Treasurer's Local Government Investment Pool 7 had a weighted average maturity of 12 days.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2009**

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>Balance July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
Capital assets not being depreciated:				
Land	\$ 6,556,344	\$ 9,568	\$ -	\$ 6,565,912
Construction in progress	100,395	307,220	(13,797)	393,818
Total capital assets not being depreciated	<u>6,656,739</u>	<u>316,788</u>	<u>(13,797)</u>	<u>6,959,730</u>
Capital assets being depreciated:				
Buildings	41,091,671	49,642		41,141,313
Equipment	7,840,337	805,153	(39,589)	8,605,901
Improvements other than buildings	2,295,471	70,849		2,366,320
Library materials	802,907	42,402	(36,652)	808,657
Total capital assets being depreciated	<u>52,030,386</u>	<u>968,046</u>	<u>(76,241)</u>	<u>52,922,191</u>
Less accumulated depreciation for:				
Buildings	(13,988,218)	(961,485)		(14,949,703)
Equipment	(4,949,106)	(469,130)	39,589	(5,378,647)
Improvements other than buildings	(1,681,454)	(90,022)		(1,771,476)
Library materials	(611,028)	(30,750)	36,652	(605,126)
Total accumulated depreciation	<u>(21,229,806)</u>	<u>(1,551,387)</u>	<u>76,241</u>	<u>(22,704,952)</u>
Total capital assets being depreciated, net	30,800,580	(583,341)	-	30,217,239
Capital assets, net	<u>\$ 37,457,319</u>	<u>\$ (266,553)</u>	<u>\$ (13,797)</u>	<u>\$ 37,176,969</u>

The District has an active construction project with a remaining contractual commitment at June 30, 2009 of \$2,499,998. This project will be funded from existing cash reserves.

Note 4 – Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2009:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2009</u>	<u>Due within one year</u>
Compensated absences payable	\$1,367,108	\$601,128	\$636,055	\$1,332,181	\$482,663

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2009**

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, 2009, active plan members were required by statute to contribute at the actuarially determined rate of 9.45 percent (8.95 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The District was required by statute to contribute at

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2009**

the actuarially determined rate of 9.45 percent (7.99 percent for retirement, 0.96 percent for health insurance premium, and 0.5 percent for long-term disability) of members' annual covered payroll.

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

Years ended June 30:	Retirement Fund	Health Benefit Supplement Fund	Long – Term Disability Fund	Totals
2009	\$1,183,115	\$142,151	\$74,037	\$1,399,303
2008	1,105,580	144,206	68,670	1,318,456
2007	958,890	133,355	63,503	1,155,748

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	\$ 22,958,493
Contract services	2,314,178
Supplies and other services	2,506,124
Communications and utilities	1,757,410
Scholarships	2,010,262
Depreciation	1,551,387
Other	<u>3,135,026</u>
Total	<u>\$ 36,232,880</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 primary source of Foundation revenue is alumni and friends of Eastern Arizona College as well as the College itself.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2009**

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

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

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

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

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

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2009**

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, 2009, were comprised of the following:

Equity mutual funds	\$ 1,217,144
Bond mutual funds	679,754
Long-term certificates of deposit	98,311
	<hr/> <u>\$ 1,995,209</u>

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. Split-Interest Agreement and Gift Annuity

In 1989, the Foundation was named the remainder beneficiary and trustee of a charitable remainder unitrust. The Unitrust beneficiaries will be paid a percentage annually of the fair value of the trust assets in quarterly payments for the rest of their natural lives. At the end of the Trust's term, the remaining assets are available for the Foundation's use. Assets held in the charitable remainder unitrust are reported at fair value and at June 30, 2009, totaled \$179,570, (consisting entirely of cash and marketable securities of \$11,032 and \$168,538, respectively). Fair value measurements at the reporting date are determined using quoted prices in active markets (Level 1 fair value hierarchy). On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments (\$73,356 at June 30, 2009) is calculated using the trust rate of 9% and applicable mortality tables.

During fiscal 2009 the Foundation was the recipient of a gift annuity. Under the terms of the gift annuity the donor will be paid \$6,000 annually for the remainder of annuitant's natural life. At the end of the annuity the remaining assets are available for the Foundation's use. Assets held for the annuity are reported at fair value and at June 30, 2009, totaled \$98,311 (consisting entirely of cash and long-term certificates of deposit of \$12,241 and \$86,070, respectively). Fair value measurements at the reporting date are determined using quoted prices in active markets (Level 1 fair value hierarchy). On an annual basis, the Foundation revalues the annuity liability to make distributions to the annuitant based on actuarial assumptions. The present value of the estimated future payments (\$39,514 at June 30, 2009) is calculated using the trust rate of 6% and applicable mortality tables.

E. Restrictions on Net Assets

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2009**

Restricted net assets are available for the following purposes:

	Temporarily Restricted	Permanently Restricted
Scholarships	\$635,727	\$339,469
Split-interest Gift Annuities	165,011	-
	<u>\$800,738</u>	<u>\$339,469</u>

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.

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, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Distance Learning and Telemedicine Loans and Grants	10.855		<u>\$ 395,859</u>
U.S. Department of the Interior			
Passed through Fish and Wildlife Service			
Partners for Fish and Wildlife	15.631	1448-20181-08-G559	<u>4,534</u>
U.S. Small Business Administration			
Passed through the Maricopa County Community College District			
Small Business Development Center	59.037	9-603001-Z-0003-17-01, 8- 8-603001-Z-0003-16	<u>85,116</u>
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		103,656
Federal Work-Study Program	84.033		231,260
Federal Pell Grant Program	84.063		2,897,865
Academic Competitiveness Grants	84.375		<u>22,488</u>
Total Student Financial Assistance Cluster			<u>3,255,269</u>
TRIO—Student Support Services	84.042		265,443
Passed through the Arizona Department of Education			
Career and Technical Education—Basic Grants to States	84.048	09FCTDBG-970551-01A	275,140
Passed through the Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	3822,4813,4984	10,895
Fund for the Improvement of Postsecondary Education	84.116		188,064
Passed through the Graham County School Superintendent			
Education Technology State Grants	84.318	07FBPETD-770673-01A	31
Gaining Early Awareness and Readiness for Undergraduate	84.334		261,986
Passed through the Arizona Governor's Office of Economic Recovery			
State Fiscal Stabilization Fund—Education State Grants, Recovery Act	84.394	GOER-FY2010-1004	<u>873,202</u>
Total U.S. Department of Education			<u>5,130,030</u>
Total Expenditures of Federal Awards			<u>\$ 5,615,539</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, 2009**

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 2009 *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, 2009



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, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 24, 2010. 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 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 items 09-01 and 09-02 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be 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 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 24, 2010



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 each of its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Graham County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

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.

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.

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.

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 24, 2010

Graham County Community College District
(Eastern Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:			
Material weakness identified?	___		<u>X</u>
Significant deficiency identified that are not considered to be a 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
10.855	Distance Learning and Telemedicine Loans and Grants
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grants
84.394	State Fiscal Stabilization Fund—Education State Grants Recovery Act

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, 2009

Financial Statement Findings

09-01

The District should strengthen logical access controls for its general ledger system

Criteria: Logical access controls ensure that only authorized users have access to the District's general ledger system and are necessary to protect the system and data from unauthorized use, damage, loss, or modification. To comply with industry standards, employees should have access to only those functions necessary for their job responsibilities. When circumstances exist that require an employee to have heightened access privileges, a supervisor should review the employee's system activity.

Condition and context: The District did not have proper and complete control procedures in place to ensure that system users were granted access rights to only those functions necessary to perform their job responsibilities or to remove access rights immediately upon an employee's termination. Specifically, auditors noted the following deficiencies:

- For 1 of 10 employees tested, the employee's system access did not appear reasonable based on the employee's job responsibilities and the employee's system activity was not regularly reviewed.
- For 1 of 10 terminated employees tested, auditors determined that the employee was terminated in November 2008 and still had system access in February 2010.

Effect: There is an increased risk of theft, manipulation, or misuse of financial data by unauthorized users or by users whose activity was not being reviewed. This finding is a significant deficiency in internal control over financial reporting.

Cause: The District did not have procedures in place to periodically review general ledger system users to ensure that access permissions were compatible with employees' current job responsibilities. Also, the District did not have adequate procedures to identify terminated part-time employees who had general ledger system access and remove their access immediately upon termination.

Recommendation: The District should perform a comprehensive review of all existing general ledger system users to ensure that employees have access rights that are compatible with their current job responsibilities. Further, the District should have controls in place to ensure users are granted system access to only those functions necessary to perform their job responsibilities and implement policies and procedures for monitoring and reviewing the activities of those who have heightened access privileges. Finally, the access rights of users no longer employed by the District should be immediately removed.

Graham County Community College District
(Eastern Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

09-02

The District should strengthen change management controls for its general ledger system

Criteria: The District should have effective policies and procedures to ensure that computer systems function properly and that the integrity of its general ledger systems' sensitive and confidential financial information is protected against unauthorized program changes.

Condition and context: The District did not effectively track its general ledger system program changes and could not provide auditors with documentation indicating that program changes were authorized, tested, reviewed, and approved prior to being put into use.

Effect: The District is exposed to the risk of unauthorized program changes to its general ledger system that could lead to potential theft, manipulation, or misuse of sensitive and confidential financial information. This finding is a significant deficiency in internal control over financial reporting.

Cause: The District did not have adequate written policies and procedures for controlling program changes made to its general ledger system.

Recommendation: The District should establish effective policies and procedures for controlling all program changes made to its general ledger system that require all program changes be logged, documented, authorized, tested, reviewed, and approved prior to being put into use.

GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Corrective Action Plan
Year Ended June 30, 2009

Financial Statement Findings

09-01

The District should strengthen access controls for its general ledger system
Contact persons – Darwin Weech, Paula Asbury
Anticipated completion date - July 1, 2010

The District will perform a quarterly logical access review of all access granted for Payroll, Accounts Receivable, Accounts Payable, General Ledger, and Bank Reconciliation modules. Also, on a weekly basis, District will compare a list of enabled Active Directory user accounts to the contract termination dates in the Payroll system. This comparison will be used to determine which accounts should be disabled.

09-02

The District should strengthen change management controls for its general ledger system
Contact person – Paula Asbury
Anticipated completion date – July 1, 2010

District will develop comprehensive written policies and procedures for controlling all changes made to information systems, including those related to general ledger. A tracking system will be implemented to ensure these program changes are documented, authorized, tested, reviewed, and approved prior to loading into production.

Graham County Community College District
(Eastern Arizona College)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2009

Status of Federal Award Findings and Questioned Costs

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**
Finding No.: 08-01
Status: Fully corrected