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ANNUAL FINANCIAL REPORT

June 30, 2003



Graham County
Community College District



Graham County
Community College District
(Eastern Arizona College)
Single Audit Reporting Package
June 30, 2003

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Single Audit Reporting Package
June 30, 2003**

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**Graham County
Community College District**
(Eastern Arizona College)
Financial Section
June 30, 2003



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 basic financial statements of Graham County Community College District as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Graham County Community College District as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 3 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 an opinion on 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 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 February 29, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport
Auditor General

February 29, 2004



Management's Discussion and Analysis

This discussion and analysis provides an overview of the District's financial activities for the year ended June 30, 2003. Please read it in conjunction with the financial statements, which immediately follow.

Basic Financial Statements:

The District's annual financial statements are presented in accordance with 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 or a not-for-profit organization. The basic financial statements consist of the following:

The *Statement of Net Assets* reflects the financial position of the District at June 30, 2003. 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, 2003. 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, 2003. 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 income/(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, 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% decline in net assets between fiscal years.

Statement of Net Assets *As of June 30, 2003 and June 30, 2002*

	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Assets:			
Current assets	\$16,202,264	\$19,765,107	-18%
Noncurrent assets			
Capital assets, net	<u>34,142,489</u>	<u>34,518,561</u>	-1%
Total assets	<u>50,344,753</u>	<u>54,283,668</u>	-7%
Liabilities:			
Current liabilities	1,001,199	1,328,695	-25%
Noncurrent liabilities	<u>474,228</u>	<u>430,271</u>	10%
Total Liabilities	<u>1,475,427</u>	<u>1,758,966</u>	-16%
Net Assets:			
Invested in capital assets	34,142,489	34,518,561	-1%
Restricted net assets	121,629	0	—
Unrestricted net assets	<u>14,605,208</u>	<u>18,006,141</u>	-19%
Total net assets	<u>\$48,869,326</u>	<u>\$52,524,702</u>	-7%

Significant Variances in Assets:

During the fiscal year, construction of the District's Academic Programs and the Student Services buildings (collectively the Middle Campus project) was completed. The District financed these needed improvements without issuing any debt. Consequently, the District's cash balances have declined as construction has progressed. During fiscal year 2002-2003, the District's current assets decreased by approximately \$3.6 million from the prior year primarily because of the construction and the reduction of cash.

In total, the District's capital assets decreased by \$376,072, or 1% from the prior year. Capital asset increases related to the District's construction activity were offset by a decrease in real property resulting from the termination of the Gila County educational services contract.

Significant Variances in Liabilities:

Current liabilities show a decrease primarily due to a reduction in accounts payable associated with construction projects that were completed during the fiscal year.

The condensed financial information below highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Assets*. The District shows an operating loss at June 30, 2003, reflective of the fact that two of the three main revenue sources, property taxes and state appropriations, are considered nonoperating revenues. For a description of the difference between operating and nonoperating revenues, please refer to the Summary of Significant Accounting Policies (Note 1). Significant variances in revenues and expenses are discussed after the following table.

*Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2003 and 2002*

Operating revenues:	<u>2003</u>	<u>2002</u>	<u>% Change</u>
Tuition and fees	\$1,719,594	\$1,959,240	-12%
Government grants and contracts	4,080,919	6,362,961	-36%
Other	<u>779,089</u>	<u>875,645</u>	-11%
Total operating revenues	<u>6,579,602</u>	<u>9,197,846</u>	-28%
Operating expenses:			
Education and general	17,587,899	20,110,812	-13%
Auxiliary enterprises	1,888,700	1,874,664	1%
Depreciation	<u>1,492,940</u>	<u>1,364,090</u>	9%
Total operating expenses	<u>20,969,539</u>	<u>23,349,566</u>	-10%
Operating loss	<u>(14,389,937)</u>	<u>(14,151,720)</u>	2%
Nonoperating revenues (expenses):			
Property taxes	1,928,485	1,783,218	8%
State appropriations	11,832,800	13,160,300	-10%
Other	<u>(3,675,924)</u>	<u>1,228,440</u>	-399%
Total nonoperating revenues, net	<u>10,085,361</u>	<u>16,171,958</u>	-38%
Income (loss) before other revenues, expenses, gains or losses	<u>(4,304,576)</u>	<u>2,020,238</u>	-313%
Capital appropriations	649,200	638,800	2%
Increase (decrease) in net assets	(3,655,376)	2,659,038	-237%
Total net assets, July 1	<u>52,524,702</u>	<u>49,865,664</u>	5%
Total net assets, June 30	<u>\$48,869,326</u>	<u>\$52,524,702</u>	-7%
Summary			
Operating revenues	\$ 6,579,602	\$ 9,197,846	-28%
Nonoperating revenues	13,900,669	16,171,958	-14%
Capital appropriations	<u>649,200</u>	<u>638,800</u>	2%
Total revenues	<u>\$21,129,471</u>	<u>\$26,008,604</u>	-19%
Operating expenses	20,969,539	23,349,566	-10%
Nonoperating expenses	<u>3,815,308</u>	<u>0</u>	—
Total expenses	<u>\$24,784,847</u>	<u>\$23,349,566</u>	-6%

Significant Variances in Revenues:

Operating revenues declined primarily because the District was unsuccessful in renegotiating an educational services contract with Gila County for fiscal year 2002-03. Thus tuition and fees declined because the District stopped receiving revenue from the students who attended classes at the Payson and Gila Pueblo campuses within Gila County. Also, government grants and contracts declined because the District stopped receiving the Gila County levied portion of the secondary tax that it was entitled to under the prior fiscal year's educational services contract.

Nonoperating revenues declined primarily due to reduced state appropriations, a direct result of budget cuts brought on by a sluggish economy.

A portion of the decrease in other nonoperating revenues was caused by a decrease in investment income for three reasons. First, the interest rate at the Arizona State Treasurer, where the majority of the District's investments are held, continued to decrease during fiscal year 2002-03. Second, due to the Middle Campus project construction, less monies were available to invest. Finally, the fair value of a portion of the District's investments held in the State Treasurer's Local Government Investment Pool was reduced from \$635,917 to \$0 because of a loss sustained by the State Treasurer in November 2002.

Significant Variances in Expenses:

Educational and general operating expenses decreased primarily because the District was unsuccessful in renegotiating an educational services contract with Gila County for fiscal year 2002-03. Thus the District did not incur expenses for providing educational services at the Payson and Gila Pueblo campuses in Gila County during fiscal year 2002-03. Depreciation expense increased primarily because the Middle Campus project's buildings and infrastructure construction was completed during fiscal year 2002-03, and the District began depreciating these assets.

Finally, the District incurred a \$3,815,308 loss on the disposal of capital assets primarily pertaining to transfer of title of real property to Gila County. The Gila County educational services contract was not renewed for fiscal year 2002-03 as previously discussed, and concurrent legislation transferred title to all of the District's real properties in Gila County to the Gila County Board of Supervisors, as detailed in Laws 2002, Chapter 330, § 59.

Capital Assets and Debt Administration:

During fiscal year 2002-03 the \$16,656,889 Middle Campus construction project was completed. The project, which was designed to increase available classroom and support space, included two new buildings. Both the Academic Programs facility and the Student Services facility will provide for current need and future growth. Funding for this Capital Development Plan came from District investments with no debt incurred.

Additional information on the District's capital assets can be found in Note 3 to the basic financial statements.

Current Factors Having Probable Future Financial Significance:

As previously discussed, at June 30, 2002, the District was unsuccessful in renegotiating an educational services contract with Gila County. Renewed attempts to negotiate a contract for 2003-2004 also failed. Subsequent to contract negotiations, legal action is pending to determine ownership of the personal property with a net book value of \$144,781 located at the Payson and Gila Pueblo Campuses.

The completion of and subsequent move into the Middle Campus Student Services Building provided unoccupied space in the vacated Administration Building. The District's Governing Board approved a renovation project for the vacated Administration Building that will begin in fiscal year 2003-04 to create computer classrooms, labs, and office space for the Computer Technology Department as well as expand the facilities for the Computer Services Department. The renovation is estimated to cost approximately \$2 million and will be paid from District investments with no debt to be incurred.

Insurance coverage for the District was put out to bid for the 2003-04 fiscal year, and the bid was awarded to the Arizona School Risk Retention Trust, Inc., which is a nonprofit corporation established as a risk retention pool for Arizona public agencies.

Tuition will increase by \$40 to \$434 per semester in 2003-2004. Residence hall and dining plan costs will also reflect a 3% increase for 2003-04. 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 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
June 30, 2003

Assets

Current assets:

Cash and cash equivalents	\$15,396,336
Receivables (net of allowances for uncollectibles)	
Property taxes	297,209
Government grants and contracts	321,101
Student loans	31,760
Interest	45,804
Other	31,626
Inventories	<u>78,428</u>
Total current assets	<u>16,202,264</u>

Noncurrent assets:

Capital assets, not being depreciated	1,779,817
Capital assets, being depreciated, net	<u>32,362,672</u>
Total noncurrent assets	<u>34,142,489</u>

Total assets	<u>50,344,753</u>
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Liabilities

Current liabilities:

Accounts payable	351,652
Accrued payroll and employee benefits	183,880
Deposits held in custody for others	102,936
Current portion of compensated absences payable	295,944
Deferred revenues	<u>66,787</u>
Total current liabilities	<u>1,001,199</u>

Noncurrent liabilities:

Compensated absences payable	<u>474,228</u>
Total noncurrent liabilities	<u>474,228</u>

Total liabilities	<u>1,475,427</u>
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Net Assets

Invested in capital assets	34,142,489
Restricted:	
Expendable for workforce development	121,629
Unrestricted	<u>14,605,208</u>
Total net assets	<u>\$48,869,326</u>

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2003

Operating revenues:

Tuition and fees (net of scholarship allowances of \$889,748)	\$ 1,719,594
Government grants and contracts	4,080,919
Private grants and contracts	19,233
Food service income (net of scholarship allowances of \$334,234)	277,483
Dormitory rentals and fees (net of scholarship allowances of \$218,137)	244,502
Other	<u>237,871</u>
Total operating revenues	<u>6,579,602</u>

Operating expenses:

Educational and general:	
Instruction	7,317,443
Academic support	363,200
Student services	2,282,964
Institutional support	3,902,260
Operation and maintenance of plant	1,753,741
Scholarships	1,968,291
Auxiliary enterprises	1,888,700
Depreciation	<u>1,492,940</u>
Total operating expenses	<u>20,969,539</u>

Operating loss	<u>(14,389,937)</u>
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Nonoperating revenues (expenses):

Property taxes	1,928,485
State appropriations	11,832,800
Share of state sales taxes	483,295
Investment income:	
Interest earnings	292,006
Decrease in fair value of investments	(635,917)
Loss on disposal of capital assets	<u>(3,815,308)</u>
Total nonoperating revenues, net	<u>10,085,361</u>

Loss before other revenues, expenses, gains, or losses	<u>(4,304,576)</u>
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Capital appropriations	649,200
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Decrease in net assets	(3,655,376)
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Total net assets, July 1, 2002	<u>52,524,702</u>
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Total net assets, June 30, 2003	<u><u>\$ 48,869,326</u></u>
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See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows
Year Ended June 30, 2003

Cash flows from operating activities:

Tuition and fees	\$ 1,719,594
Government grants and contracts	4,121,286
Private grants and contracts	19,233
Food service receipts	277,483
Dormitory rentals and fees	244,502
Other receipts	230,691
Payments to suppliers and providers of goods and services	(5,303,708)
Payments to employees	(12,223,082)
Payments to students for scholarships and loans	(1,986,594)
Net cash used for operating activities	<u>(12,900,595)</u>

Cash flows from noncapital financing activities:

Property taxes	1,863,292
State appropriations	11,832,800
Share of state sales taxes	477,896
Agency fund activity	<u>8,373</u>
Net cash provided by noncapital financing activities	<u>14,182,361</u>

Cash flows from capital and related financing activities:

Capital appropriations	649,200
Payments made to contractors	(5,053,453)
Purchases of capital assets	<u>(192,109)</u>
Net cash used for capital and related financing activities	<u>(4,596,362)</u>

Cash flows from investing activities:

Interest received on investments	334,392
Decrease in fair value of investments with State Treasurer's Local Government Investment Pool	<u>(635,917)</u>
Net cash used for investing activities	<u>(301,525)</u>

Net decrease in cash and cash equivalents (3,616,121)

Cash and cash equivalents, July 1, 2002 19,012,457

Cash and cash equivalents, June 30, 2003 \$ 15,396,336

(Continued)

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows
Year Ended June 30, 2003**

**Reconciliation of operating loss to net cash
used for operating activities:**

Operating loss	\$(14,389,937)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,492,940
Changes in assets and liabilities:	
Increase in:	
Student loans receivable	(18,303)
Other receivables	(7,180)
Inventories	(760)
Accrued payroll and employee benefits	15,314
Compensated absences	11,592
Deferred revenues	40,093
Decrease in:	
Government grants and contracts receivable	274
Accounts payable	(44,628)
Net cash used for operating activities	<u><u>\$(12,900,595)</u></u>

Noncash capital activities:

During the year ended June 30, 2003, the District disposed of capital assets with a net book value of \$3,815,308 and received no proceeds, resulting in a loss on disposal of \$3,815,308. The majority of this amount (\$3,806,851) related to the transfer of ownership of real property located in Gila County's unorganized community college district. The Gila County Board of Supervisors received title to the property as mandated by an action of the Arizona State Legislature.

See accompanying notes to financial statements.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2003**

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Graham County Community College District conform to generally accepted accounting principles as 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. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity.

The financial activities of the Eastern Arizona College Foundation are not included in the District's financial statements. The Foundation is a nonprofit corporation controlled by a separate board of directors. The Foundation's goals are to promote educational programs and District objectives.

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.

GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2003

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. Generally, revenues generated by the District for instruction and student services are considered to be operating revenues. Other revenues used for instruction and student services, such as property taxes and state appropriations, are not generated from operations and are considered to be nonoperating revenues.

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 only follows those Financial Accounting Standards Board 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.

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. All investments are stated at fair value.

D. Inventories

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

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2003**

E. Capital Assets

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

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 & Improvements, Brick & Mortar	\$5,000	Straight-line	40 years
Buildings & Improvements, Temporary/Modular	\$5,000	Straight-line	20 years
Infrastructure	\$5,000	Straight-line	15 years
Construction in Progress	\$5,000	Not applicable	Not applicable
Equipment	\$5,000	Straight-line	5 years
Library Materials	\$1	Straight-line	10 years

F. Investment Income

Investment income is 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.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2003**

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 15 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.

I. Property Tax Revenues

The Graham County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business day in November and May. A lien assessed against real and personal property attaches on the first day of January preceding the assessment and levy.

Note 2 – Deposits and Investments

Arizona Revised Statutes (A.R.S.) require 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.

Deposits—At June 30, 2003, the carrying amount of the District's deposits was (\$13,556), and the bank balance was \$346,940. The deposits deficit resulted from the District investing monies until outstanding checks cleared. The entire bank balance was covered by federal depository insurance or by collateral held by the District's custodial bank in the District's name.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2003**

Investments—At June 30, 2003, the District's investments consisted of the following:

	<u>Fair Value</u>
Investment in State Treasurer's investment pool	<u>\$15,409,892</u>

The District's investment in the State Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk.

The State Board of Investment provides oversight for the State Treasurer's pool, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2003**

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

	Balance July 1, 2002, <u>As Adjusted</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 2,284,405	\$ 467,874	\$ (972,462)	\$ 1,779,817
Construction in progress	12,087,038	4,569,851	(16,656,889)	0
Total capital assets not being depreciated	<u>14,371,443</u>	<u>5,037,725</u>	<u>(17,629,351)</u>	<u>1,779,817</u>
Capital assets being depreciated:				
Buildings and improvements	28,054,407	16,812,856	(4,597,973)	40,269,290
Equipment	4,711,853	75,540	(166,564)	4,620,829
Infrastructure	2,271,514	250,943	(186,166)	2,336,291
Library materials	811,701	45,268	(22,895)	834,074
Total capital assets being depreciated	<u>35,849,475</u>	<u>17,184,607</u>	<u>(4,973,598)</u>	<u>48,060,484</u>
Less accumulated depreciation for:				
Buildings and improvements	(9,887,125)	(1,034,507)	1,254,889	(9,666,743)
Equipment	(3,898,904)	(324,772)	164,105	(4,059,571)
Infrastructure	(1,213,229)	(107,016)	55,596	(1,264,649)
Library materials	(703,099)	(26,645)	22,895	(706,849)
Total accumulated depreciation	<u>(15,702,357)</u>	<u>(1,492,940)</u>	<u>1,497,485</u>	<u>(15,697,812)</u>
Total capital assets being depreciated, net	<u>20,147,118</u>	<u>15,691,667</u>	<u>(3,476,113)</u>	<u>32,362,672</u>
Capital assets, net	<u>\$34,518,561</u>	<u>\$20,729,392</u>	<u>\$(21,105,464)</u>	<u>\$34,142,489</u>

Certain buildings and improvements reported as of June 30, 2002, have been reclassified as infrastructure assets. These reclassifications are reflected in the July 1, 2002, beginning balances.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2003**

Note 4 – Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2003.

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due within one year
Compensated absences payable	<u>\$758,580</u>	<u>\$324,553</u>	<u>\$312,961</u>	<u>\$770,172</u>	<u>\$295,944</u>

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 carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 6 – Retirement Plan

Plan Description—The District contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

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

GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2003

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, 2003, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2003, 2002, and 2001 were \$217,611, \$258,213, and \$249,715, respectively, which were equal to the required contributions for the year.

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. The operating expenses can also be classified into the following:

Salaries and benefits	\$12,249,988
Contract services	980,518
Supplies and other services	2,199,526
Communications and utilities	880,390
Scholarships	1,968,291
Depreciation	1,492,940
Other	<u>1,197,886</u>
Total	<u>\$20,969,539</u>

Supplementary Information

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Small Business Administration			
Passed through the Maricopa County Community College District			
Small Business Development Center	59.037	None	<u>\$ 42,528</u>
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		103,578
Federal Work-Study Program	84.033		231,260
Federal Pell Grant Program	84.063		<u>2,311,979</u>
Total Student Financial Assistance Cluster			<u>2,646,817</u>
TRIO— Student Support Services	84.042		218,722
Passed through the Arizona Department of Education			
Adult Education—State Grant Program	84.002	03-FAE-ABE-370551-02A	11,801
Passed through the Arizona Department of Education			
Vocational Education—Basic Grants to States	84.048	03-FCTDBG-370551-03A	214,577
Passed through the Arizona Commission for Post-secondary Education			
Leveraging Educational Assistance Partnership	84.069	None	10,729
Passed through the Graham County School Superintendent			
Education Technology State Grants	84.318	03FADETD-370673-01A	<u>9,737</u>
Total U.S. Department of Education			<u>3,112,383</u>
Total Expenditures of Federal Awards			<u>\$3,154,911</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, 2003**

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 2003 *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, 2003



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance and on Internal Control over
Financial Reporting 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 basic financial statements of Graham County Community College District as of and for the year ended June 30, 2003, and have issued our report thereon dated February 29, 2004. 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.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of basic 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Debbie Davenport
Auditor General

February 29, 2004



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 cluster for the year ended June 30, 2003. The District's major federal program cluster 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 cluster 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 on 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 cluster for the year ended June 30, 2003.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with 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 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

Debbie Davenport
Auditor General

February 29, 2004

Graham County Community College District
(Eastern Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
	Yes No
Material weakness identified in internal control over financial reporting?	___ <u>X</u>
Reportable condition identified not considered to be a material weakness?	___ <u>X</u> (None reported)
Noncompliance material to the financial statements noted?	___ <u>X</u>

Federal Awards

Material weakness identified in internal control over major programs?	___ <u>X</u>
Reportable condition identified not considered to be a material weakness?	___ <u>X</u> (None reported)
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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Cluster of Programs:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program

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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