



Annual Financial Report and Report on Internal Control and on Compliance Year Ended June 30, 2025

Gila County Provisional Community College District



Lindsey A. Perry
Auditor General

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The Arizona Auditor General's mission is to provide independent and impartial information, impactful recommendations, and stakeholder education to improve Arizona government for its citizens. To this end, the Office conducts financial statement audits and provides certain accounting services to the State and political subdivisions, investigates possible criminal violations involving public officials and public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

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Representative **Steve Montenegro** (ex officio)

Audit staff

Katherine Edwards Decker, Director

Michelle Walters, Manager

Contact information

 **(602) 553-0333**

 contact@azauditor.gov

 www.azauditor.gov

2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

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**ARIZONA
AUDITOR
GENERAL**

Lindsey A. Perry, Auditor General

Independent auditors' report

Members of the Arizona State Legislature

The Governing Board of
Gila County Community College District

Report on the audit of the financial statements

Opinions

We have audited the accompanying financial statements of the governmental activities and General Fund of the Gila County Provisional Community College District as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of the District as of June 30, 2025, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for opinions

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 U.S. Comptroller General. Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's responsibilities for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's

ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, we:

- ▶ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ▶ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the audit's planned scope and timing, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required supplementary information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 8, the budgetary comparison schedule - General Fund on pages 25 to 26, and schedule of District pension contributions on page 27 be presented to supplement the basic financial statements. Such information is management's responsibility and, although not

a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2026, 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 solely 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 the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

March 31, 2026



Management's Discussion and Analysis

Our discussion and analysis of the Gila County Provisional Community College District's (District's) financial performance provides an overview of the District's financial activities for the year ended June 30, 2025. Please read it in conjunction with the District's basic financial statements, which immediately follow.

Basic Financial Statements

The District is a special-purpose governmental unit governed by a separately elected governing body. The financial statements are presented in accordance with the reporting model prescribed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis*, and consist of the following:

The government-wide and fund financial statements are presented, with a reconciliation shown between them.

The Governmental Fund Balance Sheet/Statement of Net Position and Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities combines information about the reporting government as a whole and the fund statements that report the General Fund's financial position and the results of its operations. Government-wide financial statements are designed to provide readers with a broad overview of the District's finances. Fund accounting is designed to demonstrate legal compliance and focuses on near-term inflows and outflows of resources as well as the balances of spendable resources available at year end.

The General Fund is the District's general operating fund. It is used to account for all of the District's financial resources.

Financial Highlights and Analysis

In accordance with State Statutes, the District does not offer degrees, certificates, or diplomas. As a result, the District has contracted with Eastern Arizona College (EAC) to provide educational programs and services.

The District and EAC entered into an intergovernmental agreement and operating agreement under which EAC provided educational programs and services to the District from July 1, 2005 through the end of fiscal year 2024-25 (June 30, 2025). Based on an amendment to the existing contract executed on August 10, 2023, the contractual relationship between the District and EAC is mutually terminated effective June 30, 2025. Under this agreement, EAC was responsible for providing educational programs; certification of faculty; admission and registration of students; payroll services for EAC employees; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; collection of all tuition and fees for credit courses; cashiering for EAC-related functions; access to information relative to enrollments; and payment to adjunct faculty.

The District exercises primary tax levy authority for the generation of funds and collects other general revenues to pay for the contracted education and other general operating expenses. The District continues to act in a financially conservative manner during the budgetary process, looking to maintain a secure financial future for the institution.

Condensed Financial Information

The financial information in the *Statement of Net Position* on page 9 reflects the District's assets, deferred outflows, liabilities, deferred inflows and net position. The *Statement of Activities* on page 11 presents the District's operations. Over time, increases or decreases in net position may serve as a useful indicator of whether the District's financial position is improving or regressing. The following tables present summaries of the District's net position and the changes in net position for the years ended June 30, 2025 and 2024.

Net Position As of June 30, 2025 and 2024

| | 2025 | 2024 | Increase/ (Decrease) |
|---|----------------------|----------------------|-------------------------|
| Assets: | | | |
| Current assets | \$ 9,953,193 | \$ 9,112,050 | \$ 841,143 |
| Noncurrent assets | | | |
| Leases receivable | 111,053 | 111,053 | - |
| Capital assets, not being depreciated/amortized | 1,478,415 | 1,347,227 | 131,188 |
| Capital assets, net of accumulated depreciation/amortization | <u>5,239,425</u> | <u>5,568,076</u> | <u>(328,651)</u> |
| Total assets | <u>16,782,086</u> | <u>16,138,406</u> | <u>643,680</u> |
| Deferred outflows related to pensions and OPEB: | <u>4,440</u> | <u>-</u> | <u>4,440</u> |
| Liabilities: | | | |
| Other liabilities | 553,947 | 468,378 | 85,569 |
| Long-term liabilities | <u>87,143</u> | <u>121,090</u> | <u>(33,947)</u> |
| Total liabilities | <u>641,090</u> | <u>589,468</u> | <u>51,622</u> |
| Deferred inflows related to leases: | 103,047 | 103,047 | - |
| Net Position: | | | |
| Net investment in capital assets | 6,632,862 | 6,794,213 | (161,351) |
| Unrestricted | <u>9,409,527</u> | <u>8,651,678</u> | <u>757,849</u> |
| Total net position | <u>\$ 16,042,389</u> | <u>\$ 15,445,891</u> | <u>\$ 596,498</u> |

**Changes in Net Position
For the Years Ended June 30, 2025 and 2024**

| | 2025 | 2024 | Increase/ (Decrease) |
|--|----------------------|----------------------|-------------------------|
| Expenses: | | | |
| Educational and general | \$ 8,002,860 | \$ 8,368,194 | \$ (365,334) |
| Debt service – interest on long-term debt | <u>3,437</u> | <u>-</u> | <u>3,437</u> |
| Total expenses | <u>8,006,297</u> | <u>8,368,194</u> | <u>(361,897)</u> |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | 17,110 | 60,041 | (42,931) |
| Operating grants and contracts | <u>919,926</u> | <u>1,107,413</u> | <u>(187,487)</u> |
| Total program revenues | <u>937,036</u> | <u>1,167,454</u> | <u>(230,418)</u> |
| General revenues: | | | |
| Property taxes | 6,069,579 | 5,876,267 | 193,312 |
| State appropriations | 857,625 | 1,040,125 | (182,500) |
| Smart and Safe Arizona Fund appropriations | 374,851 | 366,870 | 7,981 |
| Investment earnings | 360,648 | 432,155 | (71,507) |
| Other | <u>3,056</u> | <u>24,022</u> | <u>(20,966)</u> |
| Total general revenues | <u>7,665,759</u> | <u>7,739,439</u> | <u>(73,680)</u> |
| Total revenues | <u>8,602,795</u> | <u>8,906,893</u> | <u>(304,098)</u> |
| Increase in net position | <u>596,498</u> | <u>538,699</u> | <u>57,799</u> |
| Total net position, July 1 | <u>15,445,891</u> | <u>14,907,192</u> | <u>538,699</u> |
| Total net position, June 30 | <u>\$ 16,042,389</u> | <u>\$ 15,445,891</u> | <u>\$ 596,498</u> |

Financial Highlights and Analysis

Significant Variances

For the fiscal year ended June 30, 2025, the financial data presented above is for analysis and comparison of significant variances relative to assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses.

- Total assets at June 30, 2025 were \$16.8 million consisting primarily of cash and investments of \$8.3 million and capital assets, net of accumulated depreciation/amortization, of \$6.7 million. The increase in assets can be attributed to the increase in cash balances as a result of a decrease in expenses with the transition from operating through EAC.
- The total liabilities of \$641,090 were comprised of current obligations for educational and general expenses and long-term liabilities for a software subscription. The increase in other liabilities of \$85,569 is the result of an increase in the accounts payable and accrued payroll accounts as the District began processing transactions independently from EAC.
- Educational and general expenses decreased \$365,334 due to savings realized from processing transactions directly rather than through EAC with the additional overhead charge.
- Operating grants and contributions decreased \$187,487 as the result of a reduction in local and state grants and contracts passed through EAC.
- Property taxes increased due to an increase in the amount of the property tax levy.
- State appropriations decreased \$182,500 due to a reduction of rural aid distributed to the District.

General Fund Budget

The District's actual educational and general expenditures were \$1,367,362 less than budgeted due to a decrease in contractual services paid to EAC.

Total revenues were \$1,486,674 more than budgeted. Operating grants and contracts were not budgeted. Personnel at EAC prepare the budget.

Additional budgetary information can be found on pages 25 and 26 of this report.

Capital Assets

The District's total investment in capital assets, net of accumulated depreciation/amortization, was \$6.7 million which was comprised of land and land improvements, buildings and building improvements, construction in progress for the Payson observatory, equipment, vehicles, library books and an intangible right-to-use software subscription asset. There was a net decrease of \$197,463 from the prior year due primarily to the depreciation of assets during the year.

Additional information on the District's capital assets can be found in Note 5 in the notes to the financial statements.

Debt Administration

The liability for the subscription-based information technology arrangement (SBITA) decreased \$36,112 during the fiscal year. Additional information can be found in Note 7 in the notes to the financial statements.

Economic Outlook

The District's fiscal year 2024–2025 FTSE totaled 434. This level reflects several significant external constraints during the transition period. Prior to 2023, EAC counted FTSE for the District's online courses taught by instructors in Gila County as FTSE for the District. In 2023, EAC unilaterally made the decision to count the online FTSE as EAC's. The accreditor-directed wind-down of the shared operational structure not only contributed to declines in dual credit and CTE enrollment, but also prevented the District from having a cohort of second-year students, further suppressing FTSE. As the District moves into full independence, it is implementing a coordinated, data-driven strategy to rebuild enrollment. Key initiatives include expanding academic and workforce program offerings, strengthening student recruitment and outreach, redeveloping online courses and programs, and improving access to clear, supported educational and career pathways across Gila County.

Request for Information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact Janet Brocker, Governing Board President at jan.brocke@gilacc.org.

Gila County Provisional Community College District
(Gila Community College)
Governmental Fund Balance Sheet/Statement of Net Position
June 30, 2025

| | <u>General Fund</u> | <u>Reconciliation (Note 8)</u> | <u>Statement of Net Position - Governmental Activities</u> |
|--|---------------------|------------------------------------|--|
| Assets | | | |
| Current assets: | | | |
| Cash and investments | \$ 8,322,676 | \$ - | \$ 8,322,676 |
| Property taxes receivable | 246,773 | - | 246,773 |
| Due from other governments | 1,180,670 | - | 1,180,670 |
| Prepaid items | 203,074 | - | 203,074 |
| Total current assets | <u>9,953,193</u> | <u>-</u> | <u>9,953,193</u> |
| Noncurrent assets: | | | |
| Leases receivable | 111,053 | - | 111,053 |
| Capital assets not being depreciated | - | 1,478,415 | 1,478,415 |
| Capital assets, net of accumulated depreciation/amortization | <u>-</u> | <u>5,239,425</u> | <u>5,239,425</u> |
| Total noncurrent assets | <u>111,053</u> | <u>6,717,840</u> | <u>6,828,893</u> |
| Total assets | <u>10,064,246</u> | <u>6,717,840</u> | <u>16,782,086</u> |
| Deferred outflows of resources | | | |
| Deferred outflows related to pensions and other post employment benefits | <u>-</u> | <u>4,440</u> | <u>4,440</u> |
| Total deferred outflows of resources | <u>-</u> | <u>4,440</u> | <u>4,440</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | 84,199 | - | 84,199 |
| Accrued payroll and employee benefits | 34,618 | - | 34,618 |
| Due to other governments | 435,130 | - | 435,130 |
| Current portion of subscription liability | <u>-</u> | <u>61,921</u> | <u>61,921</u> |
| Total current liabilities | <u>553,947</u> | <u>61,921</u> | <u>615,868</u> |
| Noncurrent liabilities: | | | |
| Subscription liability | <u>-</u> | <u>25,222</u> | <u>25,222</u> |
| Total noncurrent liabilities | <u>-</u> | <u>25,222</u> | <u>25,222</u> |
| Total liabilities | <u>553,947</u> | <u>87,143</u> | <u>641,090</u> |

(Continued)

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Governmental Fund Balance Sheet/Statement of Net Position
June 30, 2025
(Continued)

| | <u>General Fund</u> | <u>Reconciliation (Note 8)</u> | <u>Statement of Net Position - Governmental Activities</u> |
|--|----------------------|------------------------------------|--|
| Deferred inflows of resources | | | |
| Unavailable revenues - property taxes | \$ 206,954 | \$ (206,954) | \$ - |
| Deferred inflows related to leases | <u>103,047</u> | <u>-</u> | <u>103,047</u> |
| Total deferred inflows of resources | <u>310,001</u> | <u>(206,954)</u> | <u>103,047</u> |
| Fund balance/Net position | | | |
| Fund balance: | | | |
| Nonspendable | 203,074 | (203,074) | - |
| Unassigned | 8,997,224 | (8,997,224) | - |
| Total fund balance | <u>9,200,298</u> | <u>(9,200,298)</u> | <u>-</u> |
| Total liabilities, deferred inflows of resources and fund balance | <u>\$ 10,064,246</u> | | |
| Net position: | | | |
| Net investment in capital assets | | 6,632,862 | 6,632,862 |
| Unrestricted | | <u>9,409,527</u> | <u>9,409,527</u> |
| Total net position | | <u>\$ 16,042,389</u> | <u>\$ 16,042,389</u> |

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Statement of Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance/Statement of Activities
Year Ended June 30, 2025

| | <u>General Fund</u> | <u>Reconciliation (Note 8)</u> | <u>Statement of Activities - Governmental Activities</u> |
|--|---------------------|------------------------------------|--|
| Expenditures/Expenses: | | | |
| Educational and general | \$ 7,495,402 | \$ 507,458 | \$ 8,002,860 |
| Debt service: | | | |
| Principal retirement | 36,112 | (36,112) | - |
| Interest on subscription liability | 3,437 | - | 3,437 |
| Capital outlay | <u>312,270</u> | <u>(312,270)</u> | <u>-</u> |
| Total expenditures/expenses | <u>7,847,221</u> | <u>159,076</u> | <u>8,006,297</u> |
| Program revenues: | | | |
| Charges for services | 17,110 | - | 17,110 |
| Operating grants and contracts | <u>919,926</u> | <u>-</u> | <u>919,926</u> |
| Total program revenues | <u>937,036</u> | <u>-</u> | <u>937,036</u> |
| Net program expenses | <u>6,910,185</u> | <u>159,076</u> | <u>7,069,261</u> |
| General revenues: | | | |
| Property taxes | 6,108,234 | (38,655) | 6,069,579 |
| State appropriations | 857,625 | - | 857,625 |
| Smart and Safe Arizona Fund appropriations | 374,851 | - | 374,851 |
| Investment earnings | 360,648 | - | 360,648 |
| Other | <u>3,056</u> | <u>-</u> | <u>3,056</u> |
| Total general revenues | <u>7,704,414</u> | <u>(38,655)</u> | <u>7,665,759</u> |
| Net change in fund balance (deficit) | 794,229 | (794,229) | - |
| Change in net position | - | 596,498 | 596,498 |
| Fund balance/Net position: | | | |
| July 1, 2024 | <u>8,406,069</u> | <u>7,039,822</u> | <u>15,445,891</u> |
| June 30, 2025 | <u>\$ 9,200,298</u> | <u>\$ 6,842,091</u> | <u>\$ 16,042,389</u> |

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2025

Note 1 - Summary of significant accounting policies

Gila County Provisional Community College District's (District) accounting policies conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

During the year ended June 30, 2025, the District implemented the provisions of GASB Statement No. 101, *Compensated Absences*. This Statement updates the recognition and measurement guidance for compensated absences. Liabilities are recognized for leave that has not been used, as well as leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The District's analysis of compensated absences in effect at the beginning of the year resulted in no changes to beginning balances reported in the financial statements due to the implementation of this standard.

The more significant of the District's accounting policies are described below.

A. Reporting entity

The District is a special-purpose government that a separately elected governing body governs. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District.

Because Gila County Provisional Community College District is not accredited, it cannot offer degrees, certificates, or diplomas and, therefore, contracts with an accredited district. Educational programs and services are provided through intergovernmental agreements as follows:

The District and Eastern Arizona College (EAC) entered into an intergovernmental agreement and operating agreement under which EAC provides educational programs and services to the District from July 1, 2005 through June 30, 2024. Per the agreement, Article IV section B, the agreement shall automatically be extended for additional periods of one year each after the initial term unless either party provides notice of termination of the agreement as set forth in Article V, Section A of the agreement. Based on an amendment, the contractual agreement continued until June 30, 2025. The agreement established that EAC will provide educational programs; certification of faculty; admission and registration of students; payroll services for EAC employees; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; collection of all tuition and fees for credit courses; cashiering for EAC-related functions; access to information relative to enrollments; and payment to adjunct faculty.

The District compensates EAC for its services on a cost reimbursement basis plus an administrative fee. This fee is calculated by multiplying a reimbursement rate of 25% of EAC's actual direct costs of providing services and programs to the District.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2025

B. Basis of presentation and accounting

The financial statements include the Governmental Fund Balance Sheet/Statement of Net Position and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities. Since the District is a single-program government, it presents the government-wide financial statements in combination with the fund financial statements.

The Governmental Fund Balance Sheet/Statement of Net Position provides information about the assets, deferred outflows, liabilities, deferred inflows of resources and fund balance/net position of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net position is classified according to external donor restrictions or availability of assets to satisfy the District obligations. Net investment in capital assets, represents the value of capital assets, net of accumulated depreciation/amortization, less any outstanding liabilities incurred to acquire or construct the assets. Unrestricted net position includes all other net resources, including those that have been designated by management to be used for other than general operating purposes.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/ Statement of Activities provides information about the District's financial activities during the year. Revenues are classified as either program or general, and all changes in net position are reported. Generally, revenues generated by the District for instruction and student services, along with operating and capital grants and contributions, are considered to be program revenues. Other revenues used for instruction and student services, such as property taxes, state appropriations, and investment earnings, not classified as program revenues are considered to be general revenues.

The General Fund is the District's primary operating fund.

The fund financial statements, the Governmental Fund Balance Sheet and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance, are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The District considers all revenues reported in the governmental fund to be available if the revenues are collected within 60 days after year end. The District's major revenue sources susceptible to accrual are property taxes, state appropriations, government grants and contracts, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in the General Fund. Issuances of general long-term debt and acquisitions under leases and subscription based software arrangements are reported as other financing sources.

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, 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 in 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.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2025

C. Cash and investments

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits and cash and investments held by the County and State Treasurers.

All investments are stated at fair value.

D. Capital assets

Capital assets are reported at actual cost or estimated historical cost if historical records are not available. Donated assets are reported at acquisition value.

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

| | Capitalization threshold | Depreciation/ Amortization method | Estimated useful life |
|-----------------------------------|---------------------------------|--|------------------------------|
| Land | \$1 | Not applicable | Not applicable |
| Buildings and improvements | \$5,000 | Straight-line | 15-40 years |
| Equipment and Vehicles | \$5,000 | Straight-line | 5-15 years |
| Improvements other than buildings | \$5,000 | Straight-line | 5-25 years |
| Library books | \$1 | Straight-line | 10 years |
| Intangibles: | | | |
| Right-to-use subscription assets | \$5,000 | Straight-line | Varies |
| Right-to-use lease assets: | | | |
| Equipment | \$5,000 | Straight-line | Varies |

Intangible right-to-use lease assets are amortized over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the District has determined is reasonably certain of being exercised – then the lease asset is amortized over the useful life of the underlying asset.

Intangible right-to-use subscription assets are amortized over the shorter of the subscription term or the useful life of the underlying IT assets.

E. Property Tax Revenues

The District’s property tax rate is adopted by the Governing Board and reviewed on an annual basis. The Gila County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

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A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

F. Investment earnings

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

G. Fund Balance Classifications

Fund balance of the governmental fund is reported separately within classifications based on a hierarchy of the constraints placed on the resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications. Although the District did not use all of the fund balance classifications during the current year, descriptions of each classification and the District's policies follow.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the District's Governing Board approved, which is the highest level of decision-making authority within the District. Only the Board can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the District's intent to be used for specific purposes, but is neither restricted nor committed. Assigned amounts represent intended uses established by the Board or a management official delegated that authority by formal Board action.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, the District will use restricted fund balance first. The District will use committed amounts first when disbursing unrestricted fund balances, followed by assigned amounts, and lastly unassigned amounts.

H. Leases and subscription-based information technology arrangements

As lessee, the District recognized lease liabilities with an initial, individual value of \$5,000 or more. The District uses its estimated incremental borrowing rate to measure lease liabilities unless it can readily determine the interest rate implicit in the lease. The estimated incremental borrowing rate is based on the prime loan rate.

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As lessor, the District recognizes lease receivables with an initial, individual value of \$10,000 or more. If there is no stated rate in the lease contract (or if the stated rate is not the rate the District charges the lessee) and the implicit rate cannot be determined, the District uses its own estimated incremental borrowing rate as the discount rate to measure lease receivables. The District's incremental borrowing rate is calculated as described above.

The District recognizes subscription liabilities with an initial, individual value of \$5,000 or more. The District uses its estimated incremental borrowing rate to measure subscription liabilities unless it can readily determine the interest rate implicit in the arrangement. The District's estimated incremental borrowing rate is calculated as described above.

I. Compensated Absences

Compensated absences consists of paid time off (PTO). PTO leave is provided to full-time employees based on years of service. When a full-time employee separates from employment, they are eligible for compensation at their current contracted salary or hourly rate for the number of hours of PTO accrued to a maximum of 240 hours.

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. A.R.S. does 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 another's property when making investment decisions about those monies. A.R.S. requires collateral for deposits at 102 percent of all deposits not covered by federal depository insurance. A.R.S. does not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District's investments.

Deposits—At June 30, 2025, the carrying amount of the District's deposits was \$230,185, and the bank balance was \$406,694. The District does not have a formal policy with respect to custodial credit risk of deposits. At June 30, 2025, the District's deposits were entirely covered by Federal depository insurance or through the Arizona State Treasurer's pooled collateral program.

Investments—The District had total investments of \$8,090,741 at June 30, 2025. Investments in the State Treasurer's investment pool are valued at the pool's share price multiplied by the number of shares the District held. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Investment in the County Treasurer's investment pool is valued using the District's proportionate participation in the pool because the pool's structure does not provide for shares. The District's portion is not identified with specific investments, and therefore, it is not subject to custodial credit risk. The State Board of Investments provides oversight for the State Treasurer's investment pools. No comparable oversight is provided for the County Treasurer's investment pool. The District does not have a formal policy regarding custodial credit risk for investments.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
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The District's external investment pool balance measured at fair value at June 30, 2025 was as follows:

| | Amount |
|---|---------------------|
| State Treasurer's investment pool 7 | \$ 7,983,713 |
| County Treasurer's investment pool | <u>107,028</u> |
| Total external investment pools measured at fair value | <u>\$ 8,090,741</u> |

Credit risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill the obligation. The District does not have a formal policy with respect to credit risk. At June 30, 2025, credit risk for the District's investments was as follows:

| Investment type | Rating | Rating agency | Amount |
|-------------------------------------|---------------|----------------------|---------------------|
| State Treasurer's investment pool 7 | Unrated | Not applicable | \$ 7,983,713 |
| County Treasurer's investment pool | Unrated | Not applicable | <u>107,028</u> |
| Total | | | <u>\$ 8,090,741</u> |

Interest rate risk—Interest rate risk is the risk that changes in interest rates will adversely affect an investments fair value. The District does not have a formal policy regarding interest rate risk for investments.

At June 30, 2025, the District had the following investments in debt securities:

| Investment type | Weighted Average Maturity | Amount |
|------------------------------------|--------------------------------------|---------------------|
| State Treasurer's investment pools | .07 years | \$ 7,983,713 |
| County Treasurer's investment pool | .73 years | <u>107,028</u> |
| | | <u>\$ 8,090,741</u> |

A reconciliation of cash, deposits, and investments to amounts shown on the statement of net position follows:

| | | | |
|----------------------------------|---------------------|----------------------------|---------------------|
| Cash, deposits, and investments: | | Statement of net position: | |
| Cash on hand | \$ 1,750 | Cash and investments | \$ 8,322,676 |
| Amount of deposits | 230,185 | | |
| Amount of investments | <u>8,090,741</u> | | |
| Total | <u>\$ 8,322,676</u> | Total | <u>\$ 8,322,676</u> |

Note 3 - Due from Other Governments

Due from other governments at June 30, 2025, as reported in the Statement of Net Position is comprised of amounts due from Eastern Arizona College in the amount of \$1,180,670.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2025

Note 4 - Leases Receivable

The District leases an easement for a cell tower to a third party under the provisions of a contract classified as a lease. The related receivable under the lease agreement has been recorded at the present value of its future minimum lease payments as of the inception date. The District receives payment on the lease at the beginning of each five-year period. There are four five-year period extensions on the lease as of June 30, 2025. The District received payment for 5 years through fiscal year 2027, therefore no lease-related revenue was recognized during the current fiscal year.

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2025, was as follows:

| | Balance July 1, 2024 | Increases | Decreases | Balance June 30, 2025 |
|--|---------------------------------|---------------------|------------------|----------------------------------|
| Capital assets not being depreciated/amortized: | | | | |
| Land | \$ 1,268,208 | \$ - | \$ - | \$ 1,268,208 |
| Construction in progress | <u>79,019</u> | <u>131,188</u> | <u>-</u> | <u>210,207</u> |
| Total capital assets not being depreciated/amortized | <u>1,347,227</u> | <u>131,188</u> | <u>-</u> | <u>1,478,415</u> |
| Capital assets being depreciated/amortized: | | | | |
| Buildings and improvements | 6,275,696 | - | - | 6,275,696 |
| Land improvements | 317,732 | - | - | 317,732 |
| Equipment | 1,625,442 | 54,062 | - | 1,679,504 |
| Vehicles | 275,887 | - | - | 275,887 |
| Library books | 361,668 | - | - | 361,668 |
| Intangibles: | | | | |
| Right-to-use lease assets: | | | | |
| Equipment | 14,360 | - | 14,360 | - |
| Right-to-use subscription assets | <u>204,539</u> | <u>9,532</u> | <u>-</u> | <u>214,071</u> |
| Total | <u>9,075,324</u> | <u>63,594</u> | <u>14,360</u> | <u>9,124,558</u> |
| Less accumulated depreciation/amortization for: | | | | |
| Buildings and improvements | (1,860,507) | (178,228) | - | (2,038,735) |
| Land improvements | (77,627) | (13,789) | - | (91,416) |
| Equipment | (1,023,074) | (106,825) | - | (1,129,899) |
| Vehicles | (130,690) | (22,782) | - | (153,472) |
| Library books | (361,219) | (323) | - | (361,542) |
| Intangibles: | | | | |
| Right-to-use lease assets: | | | | |
| Equipment | (14,360) | - | (14,360) | - |
| Right-to-use subscription assets | <u>(39,771)</u> | <u>(70,298)</u> | <u>-</u> | <u>(110,069)</u> |
| Total | <u>(3,507,248)</u> | <u>(392,245)</u> | <u>(14,360)</u> | <u>(3,885,133)</u> |
| Total capital assets being depreciated/amortized, net | <u>5,568,076</u> | <u>(328,651)</u> | <u>-</u> | <u>5,239,425</u> |
| Capital assets, net | <u>\$ 6,915,303</u> | <u>\$ (197,463)</u> | <u>\$ -</u> | <u>\$ 6,717,840</u> |

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2025

The District has contractual commitments related to the construction of an observatory at June 30, 2025. At June 30, 2025, the District had spent \$210,207 on the project and had remaining contractual commitments of \$370,202. The project is being financed by monies received from Caris Trust.

Note 6 - Due to Other Governments

At June 30, 2025, the District had reported a total amount due to other governments of \$435,130. A portion of this liability, in the amount of \$79,310 is owed to EAC for providing educational programs and services during the year. The remaining amount of \$355,820 is owed to the State of Arizona related to erroneous sales tax distributions in prior years.

Note 7 - Long-term liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2025:

| | Balance | | | Balance | Due |
|-----------------------------|---------------------|------------------|-------------------|----------------------|------------------|
| | July 1, 2024 | Additions | Reductions | June 30, 2025 | within |
| | | | | | 1 year |
| Compensated absences, net | \$ - | \$ 2,165 | \$ - | \$ 2,165 | \$ - |
| Subscriptions liability | <u>121,090</u> | <u>-</u> | <u>36,112</u> | <u>84,978</u> | <u>61,921</u> |
| Total long-term liabilities | <u>\$ 121,090</u> | <u>\$ 2,165</u> | <u>\$ 36,112</u> | <u>\$ 87,143</u> | <u>\$ 61,921</u> |

Subscription-based information technology arrangements (SBITAs)—The District has obtained the right-to-use student information software under the provisions of a subscription-based information technology arrangement.

The following schedule details minimum subscription payments to maturity for the District's subscription liability at June 30, 2025:

| Year ending June 30 | Principal | Interest |
|----------------------------|------------------|-----------------|
| 2026 | \$ 61,921 | \$ 2,879 |
| 2027 | <u>23,057</u> | <u>2,194</u> |
| Total | <u>\$ 84,978</u> | <u>\$ 5,073</u> |

The total amount of right-to-use software subscription assets and the related accumulated amortization by major asset class are as follows:

| | Governmental |
|--------------------------------|---------------------|
| | Activities |
| Asset: | |
| Software | \$ 185,890 |
| Less: Accumulated amortization | <u>(98,109)</u> |
| Carrying value | <u>\$ 87,781</u> |

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2025

Note 8 - Reconciliations

The reconciliation of the governmental fund balance sheet to the statement of net position at June 30, 2025, was as follows:

| | |
|---|---------------------|
| Fund balance – governmental fund | \$ 9,200,298 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental fund. | 206,954 |
| Deferred outflows of resources related to pensions/OPEB are applicable to future reporting periods and, therefore, are not reported in the governmental fund. | 4,440 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund. | 6,717,840 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund. | <u>(87,143)</u> |
| Net position of governmental activities | <u>\$16,042,389</u> |

The reconciliation of the statement of governmental fund revenues, expenditures, and changes in fund balance to the statement of activities for the year ended June 30, 2025, was as follows:

| | |
|---|-------------------|
| Net change in fund balance – governmental fund | \$ 794,229 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Collections of revenues in the governmental fund exceeded revenues reported in the statement of activities | (38,655) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. | |
| Expenditures for capitalized assets | 194,782 |
| Depreciation/amortization expense | <u>(392,245)</u> |
| Net | (197,463) |
| County pension/OPEB contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension/OPEB liability is measured a year before the County's report date. | 4,440 |
| Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position. | 36,112 |
| Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available. | |
| Increase in compensated absences | <u>(2,165)</u> |
| Change in net position of governmental activities | <u>\$ 596,498</u> |

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2025

Note 9 – 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 with other Arizona community college districts and more than 200 Arizona school districts in the Arizona School Risk Retention Trust, Inc. (Trust), a public-entity risk pool. The Trust insures the District against liabilities arising from general liability; professional liability; property, automobile, boiler and machinery liability; and commercial crime risks. The coverage limit for general liability is \$10 million with no deductible except for employer's liability, which is \$2 million with a \$500,000 deductible. The coverage limit for professional liability is \$1 million with no deductible (except for student's clinical practicum, the coverage limit is \$3 million, no deductible). The coverage limit for property insurance is equal to the total insurable property value of \$17.0 million with a \$5,000 deductible. The coverage limit for automobile liability is \$10 million with no deductible. 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 single year. The District will be charged for any such assessment in the following year.

The District is also a member of the Arizona School Boards Association Insurance Trust (ASBAIT), a public entity risk pool formed to provide health care benefits to employees of participating Arizona community college and school districts. The District was responsible for paying the premiums for eligible employees and spousal and dependent coverage. The District's contributions are reported as expenses in the financial statements. ASBAIT's assets are managed by a separate board of trustees. Should the District withdraw from ASBAIT, the District shall have no claim to any portion of any reserves or fund balance of ASBAIT. Whether the District withdraws or ASBAIT becomes insolvent, the District remains liable for assessments for liabilities of ASBAIT incurred during the District's period of membership in ASBAIT.

The District joined the Arizona School Alliance for Workers' Compensation, Inc. (Alliance) together with other school districts in the state for risks of loss related to workers' compensation claims. The Alliance is a public entity risk pool currently operating as a common risk management and insurance program for school districts in the State. The District pays premiums to the Alliance for its employee workers' compensation coverage. The agreement provides that the Alliance will be self-sustaining through members' premiums and will reinsure through commercial companies for claims in excess of specified amounts for each insured event.

Note 10 – Pensions and Other Postemployment Benefits

The District started participating in the Arizona State Retirement System (ASRS) in May 2025. The District has not reported a pension or other postemployment benefit (OPEB) liability for June 30, 2025 because it did not participate in the plans at June 30, 2024, the measurement date for the plans' liabilities that employer participants report at June 30, 2025. The District reported amounts for pension and OPEB contribution activity for fiscal year 2025 in its financial statement and described related information below; however, the OPEB plans are not described below due to their insignificance to the District's financial statements.

Gila County Provisional Community College District
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June 30, 2025

Plan Description—District employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the ASRS website at www.azasrs.gov.

Benefits Provided—The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

| | Retirement | |
|--|--|--|
| | Initial membership date: | |
| | Before July 1, 2011 | On or after July 1, 2011 |
| Years of service and age required to receive benefit | Sum of years and age equals 80 | 30 years, age 55 |
| | 10 years, age 62 | 25 years, age 60 |
| | 5 years, age 50* | 10 years, age 62 |
| | any years, age 65 | 5 years, age 50* |
| | | any years, age 65 |
| Final average salary is based on | Highest 36 consecutive months of last 120 months | Highest 60 consecutive months of last 120 months |
| Benefit percent per year of service | 2.1% to 2.3% | 2.1% to 2.3% |

* With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

Contributions—In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.12 percent for retirement of the members’ annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 12.05 percent for retirement of the active members’ annual covered payroll. The District’s contributions to the pension plan for the year ended June 30, 2025 were \$4,366.

Gila County Provisional Community College District
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Notes to financial statements
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Employers are also required to pay an Alternate Contribution Rate (ACR), for retired members who return to work in positions that would typically be filled by an employee who contributes to ASRS. The District was required by statute to contribute at the actuarially determined rate of 10.14 for retirement. ACR contributions are included in employer contributions presented above.

The District's pension plan contributions are paid by the same funds as the employee's salary, with the largest component coming from the General Fund.

Deferred Outflows of Resources—At June 30, 2025, the District reported deferred outflows of resources related to pensions from the following sources:

| | Deferred outflows of resources |
|--|---|
| Contributions subsequent to the measurement date | \$ 4,366 |
| Total | <u>\$ 4,366</u> |

Contributions Payable—The District's accrued payroll and employee benefits included \$2,087 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2025.

Note 11 - Subsequent Event

Since July 1, 2025, the District was granted appropriate accreditation and has been operating as an independent community college district and continues to implement its own systems, policies, and governance structures. During this period, the District advanced key accreditation activities associated with its candidacy status, including establishing its first institutional baselines, strengthening internal controls, creating a strategic plan, applying to provide federal financial aid, and preparing required follow up documentation for the Accrediting Commission for Community and Junior Colleges. The District also completed its first full semester as an independent institution and continues developing the fiscal, administrative, and reporting processes necessary for long term operational stability. In addition, the District expanded academic and student support services, aligned staffing and procedures with its independent structure, and enhanced data collection and compliance practices to ensure continuity of operations and adherence to state and accreditation requirements.

Other Required Supplementary Information

Gila County Provisional Community College District
(Gila Community College)
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2025

| | <u>Original and Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|--|---------------------------|---------------------------------------|
| Revenues: | | | |
| Property taxes | \$ 6,020,822 | \$ 6,108,234 | \$ 87,412 |
| State appropriations | 495,800 | 857,625 | 361,825 |
| Smart and Safe Arizona Fund appropriations | 398,154 | 374,851 | (23,303) |
| Charges for services | - | 17,110 | 17,110 |
| Operating grants and contracts | - | 919,926 | 919,926 |
| Investment earnings | 240,000 | 360,648 | 120,648 |
| Other | - | 3,056 | 3,056 |
| Total revenues | <u>7,154,776</u> | <u>8,641,450</u> | <u>1,486,674</u> |
| Expenditures: | | | |
| Educational and general | 8,862,764 | 7,495,402 | 1,367,362 |
| Debt service: | | | |
| Principal retirement | - | 36,112 | (36,112) |
| Interest on subscription liability | - | 3,437 | (3,437) |
| Capital outlay | 347,700 | 312,270 | 35,430 |
| Total expenditures | <u>9,210,464</u> | <u>7,847,221</u> | <u>1,363,243</u> |
| Net change in fund balance (deficit) | (2,055,688) | 794,229 | 2,849,917 |
| Fund balance (deficit): | | | |
| July 1, 2024 | <u>8,954,478</u> | <u>8,406,069</u> | <u>(548,409)</u> |
| June 30, 2025 | <u>\$ 6,898,790</u> | <u>\$ 9,200,298</u> | <u>\$ 2,301,508</u> |

See accompanying note to budgetary comparison schedule.

Gila County Provisional Community College District
(Gila Community College)
Required Supplementary Information
Notes to Budgetary Comparison Schedule – General Fund
June 30, 2025

Note 1 - Budgeting and Budgetary Control

A.R.S. requires the District to prepare and adopt a balanced budget annually for each governmental fund. The Governing Board must approve the operating and capital outlay budgets on or before June 20. The Governing Board shall not adopt the budget if the property tax requirements of the budget, excluding amounts budgeted and levied for secondary property taxes, exceed the amounts established by statute. The budget must contain the estimated cost of all operating, capital outlay, and debt service expenditures. The District budgets all General Fund expenditures in total since the majority of costs are paid through the agreement with Eastern Arizona College (EAC).

Note 2 - Budgetary Basis of Accounting

The District's budget is prepared on a basis consistent with generally accepted accounting principles, except for the beginning unrestricted General Fund balance presented on the General Fund's Budgetary Comparison Schedule, which is budgeted on the cash basis.

Gila County Provisional Community College District
(Gila Community College)
Required Supplementary Information
Schedule of District pension contributions
Year Ended June 30, 2025

| | <u>Reporting fiscal year 2025</u> |
|---|---------------------------------------|
| Arizona State Retirement System | |
| Statutorily required contribution | \$ 4,440 |
| District's contributions in relation to the statutorily required contribution | <u>4,440</u> |
| District's contribution deficiency (excess) | <u>\$ -</u> |
| | |
| District's covered payroll | 211,262 |
| | |
| District's contributions as a percentage of covered payroll | 2.10% |



**ARIZONA
AUDITOR
GENERAL**

Lindsey A. Perry, 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
Gila County Community College District

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General, the financial statements of the governmental activities and General Fund of Gila County Provisional Community College District as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 31, 2026.

Report on internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and recommendations as item 2025-01, that we consider to be a material weakness.

Report on compliance and other matters

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

District response to findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the findings identified in our audit that are presented in its corrective action plan at the end of this report. The District is responsible for preparing a corrective action plan to address each finding. The District's responses and corrective action plan were not subjected to the other auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

March 31, 2026

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

The subsequent pages present the Arizona Auditor General’s findings and recommendations resulting from our audit of the District’s financial statements.

The District lacked procedures to review vendor bank information change requests and put \$1.1 million of public monies at risk of being stolen by fraudsters

Condition

Contrary to internal control standards, the District did not have procedures in place requiring employees to verify vendor bank information change requests prior to paying vendors. Specifically, the District did not require employees with the ability to make vendor information changes to directly contact vendors using existing contact information to verify the appropriateness of the requested changes prior to making the changes and any subsequent payments to vendors.

Consequently, based solely on a fraudulent email request to change a valid vendor's bank routing number, the District's business office improperly changed the bank account and routing number to the fraudulent account and initiated an electronic funds transfer (EFT) for \$1.1 million. Fortunately, the payment was not processed because the fraudulent bank account number was invalid and the District's money was returned.

Effect

Without effective internal control procedures in place, District management did not identify a vendor bank information change request as fraudulent and put \$1.1 million of public monies at risk of being stolen by fraudsters. Although the District reported that this was the only vendor bank information change request it received, had the fraudulent EFT payment been processed, the District may not have recovered the funds, putting the District's operations in jeopardy. Specifically, this potential loss of monies would have resulted in a nearly 7% decrease in the District's June 30, 2025 net position totaling \$16 million and less monies available for uses that benefit the District and its students, such as for educational and operating expenses.

Cause

The District reported that it started its accreditation process at the beginning of 2025, including hiring new employees and developing District policies and procedures, and did not prioritize establishing written policies and procedures over verifying vendor information change requests.

Criteria

Designing, implementing, and maintaining effective policies and procedures when changing a vendor's bank information is necessary to achieve the District's objectives that include safeguarding public monies and other assets, and responding to risks of fraud is an essential part of internal control standards, such as the *Standards for Internal Control in Federal*

Government issued by the Comptroller General of the United States, and integral to ensuring monies are not fraudulently or mistakenly misused.¹

Recommendation to the District

1. Prioritize developing, documenting, and implementing written procedures over verifying vendor information change requests. Specifically, train and require employees with the ability to make vendor information changes to directly contact vendors using existing contact information to verify the appropriateness of requested changes prior to making the changes and payments to vendors.

Views of responsible officials

District management concurs with this finding. The District's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials regarding this recommendation. We are not required to audit and have not audited these responses and planned corrective actions and, therefore, provide no assurances as to their accuracy.

¹ U.S. Government Accountability Office. (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 11/8/2024 from <https://www.gao.gov/assets/670/665712.pdf>

The subsequent pages were written by the District to provide a response to each of the findings and to indicate its intention regarding implementation of the recommendations resulting from the audit conducted by the Arizona Auditor General.

March 12, 2026

Lindsey A. Perry
Arizona Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in Government Auditing Standards and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Specifically, for each finding, we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,



Dr. Janice Lawhorn
President, Gila Community College

JL:lka
attachment

GILA COUNTY COMMUNITY COLLEGE DISTRICT
Corrective action plan
Year ended June 30, 2025

Financial statement findings

2025-01

Attempted Fraud

Contact: Dr. Janice Lawhorn, College President; Consultant Lauri Avila

Completion Date: May 2025 – Corrective actions and controls were put in place immediately after the incident (stated below).

April 2026 – Board policies and internal operating procedures will be approved at the monthly board meeting.

Corrective actions taken:

- Immediately contacted our banking service team – our accounts were locked and a stop payment on the ACH transaction issued
- Contacted our Board President, legal counsel, our insurance trust, and the Auditor General's office
- Report of internet/electronic fraud was filed with the FBI – case number received
- Immediately began discussions with our banking service team to implement fraud control measures at the bank transaction level
- Immediately discussed and implemented enhanced internal fiscal control measures with consultants and staff
- The College's Information Technology administrators were contacted to trace the suspect electronic/email activity

Banking Controls and Enhanced Internal Controls Implemented:

- Positive Pay/Fraud Control processes implemented through Bank Account:
 - Positive Pay Approval process performed each morning for every ACH transaction debit/payment request received by Bank for our general operating account. Each ACH debit transaction must be reviewed and manually approved by a Fiscal Administrator of Gila Community College as designated through bank permissions and security protocols. If an ACH debit is not approved by the Fiscal Administrator, then the bank does not process the transaction.
 - Positive Pay Approval process performed for any handwritten check to be drawn on the general operating account. A minimum of four pieces of identifying information for any physical check written must be entered in the bank fraud control system by the designated Fiscal Administrator of the College before a check is delivered as payment to another party. The identifying information entered is then verified for any check presented for payment. If it does not match, it is not paid.
- Enhanced Internal Fiscal Control Processes
 - ANY notice of a change in banking information received by Fiscal personnel is verified by personal employee contact with the requesting organization, preferably by phone. The College Fiscal Administrator responsible for entering vendors and vendor payment information in the accounting platform will verify that the

requesting organization has been personally contacted and the banking information verified before changing ANY bank payment information in the accounting platform.

- College Information Technology Administrators implemented additional security protocols for our servers to include stronger firewall and authentication processes for emails and web addresses through Microsoft and Malware Bytes. Additionally, annual Cyber Security training will be provided to all employees to strengthen this critical first line of defense against potential fraud schemes aimed at the College.