



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statements and Report on Internal Control and
on Compliance

Gila County Provisional Community College District

(Gila Community College)

Year Ended June 30, 2005



Debra K. Davenport
Auditor General

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Gila County Provisional Community College District
(Gila Community College)
Financial Statements and Report on Internal Control
Year Ended June 30, 2005

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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Gila County Provisional Community College District

We have audited the accompanying 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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 opinions.

The District did not maintain a capital assets listing to support the capital assets balance on the Statement of Net Assets at June 30, 2005. As a result, the District's records did not permit us to apply auditing procedures sufficient to determine whether the capital assets balance of \$223,258 was accurately reported in the June 30, 2005, financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain a capital assets listing and supporting records, the financial statements referred to in the first paragraph above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of Gila County Provisional Community College District as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principle.

The Management's Discussion and Analysis on pages i through v and the Budgetary Comparison Schedule—General Fund on pages 9 and 10 are not required parts of the basic financial statements but are 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

February 6, 2009



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Management's Discussion and Analysis

Our discussion and analysis of the District's financial performance provides an overview of the District's financial position and activities for the year ended June 30, 2005. Please read it in conjunction with the financial statements, which immediately follow.

Basic Financial Statements

The District's annual financial statements were prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP). The District is a special-purpose governmental unit governed by a separately elected governing body. The financial statements consist of the following:

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

The Governmental Fund Balance Sheet/Statement of Net Assets 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 fund statements to 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 to aid financial management by segregating transactions related to certain District functions or activities.

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

Financial Highlights and Analysis

In accordance with State Statute, the Gila County Provisional Community College District does not offer degrees, certificates, or diplomas. As a result, the District has contracted with Pima County Community College District (Pima) to provide educational services to students residing in Gila County. The District entered into an intergovernmental agreement with Pima beginning July 1, 2004, for educational services. In accordance with the agreement, Pima provides certification of faculty and students; admission and registration of students; payroll services for Pima 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 Pima related functions; access to information relative to enrollments; and payment to adjunct faculty. The District also entered into an intergovernmental agreement with Gila County on July 1, 2004. The agreement established that Gila County will provide facilities for college classes, staff to administer community college programs, payroll services, and human resources services. The District exercises primary tax levy authority for the generation of funds to pay for contract and other operating expenses, and 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 Assets* reflects the assets, liabilities and net assets of the District. The *Statement of Activities* presents the operations of the District. 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 regressing.

*Statement of Net Assets
As of June 30, 2005 and 2004*

	<u>2005</u>	<u>2004</u>	<u>Increase/Decrease</u>
Assets:			
Current assets	\$1,418,114	\$864,224	\$553,890
Noncurrent assets:			
Capital assets, net of accumulated depreciation	<u>223,258</u>	<u> </u>	<u>223,258</u>
Total assets	<u>\$1,641,372</u>	<u>\$864,224</u>	<u>\$777,148</u>
Liabilities:			
Current liabilities	<u>\$ 642,704</u>	<u>\$448,961</u>	<u>\$193,743</u>
Total liabilities	<u>642,704</u>	<u>448,961</u>	<u>193,743</u>
Net assets:			
Invested in capital assets, net of related debt	223,258		223,258
Unrestricted	<u>775,410</u>	<u>415,263</u>	<u>360,147</u>
Total net assets	<u>998,668</u>	<u>415,263</u>	<u>583,405</u>
Total net assets and liabilities	<u>\$1,641,372</u>	<u>\$864,224</u>	<u>\$777,148</u>

Statement of Activities
For the Years Ended June 30, 2005 and 2004

Expenses:	<u>2005</u>	<u>2004</u>	<u>Increase/Decrease</u>
Education	\$2,741,971	\$2,226,225	\$515,746
Total expenses	<u>2,741,971</u>	<u>2,226,225</u>	<u>515,746</u>
Revenues:			
Program revenues:			
Charges for services	149,653	123,045	26,608
Operating grants and contributions	<u>73,328</u>	<u>126,572</u>	<u>(53,244)</u>
Total program revenues	<u>222,981</u>	<u>249,617</u>	<u>(26,636)</u>
General revenues:			
Property taxes	2,365,449	2,298,867	66,582
State appropriations	325,000		325,000
Gila County allocation	250,000		250,000
Investment earnings	14,652	12,710	1,942
Miscellaneous	<u>147,294</u>	<u>80,294</u>	<u>67,000</u>
Total general revenues	<u>3,102,395</u>	<u>2,391,871</u>	<u>710,524</u>
Total revenues	<u>3,325,376</u>	<u>2,641,488</u>	<u>683,888</u>
Change in net assets	<u>583,405</u>	<u>415,263</u>	<u>\$168,142</u>
Net assets:			
Beginning of the year	<u>415,263</u>	<u> </u>	
End of the year	<u>\$ 998,668</u>	<u>\$ 415,263</u>	

Significant Variances

For the fiscal year ended June 30, 2005, the second year of operations for Gila County Provisional Community College District, the financial data presented above is for analysis and comparison of significant variances relative to assets, liabilities, net assets, revenues and expenditures.

- Total assets at June 30, 2005, were \$1,641,372, consisting primarily of cash and investments of \$1,293,485 and capital assets, net of depreciation of \$223,258. Cash and investments increased \$590,778 due to additional property tax receipts, state appropriations, and the Gila County allocation. Also, the District purchased capital assets for the first time since its inception, and received assets as a result of a settlement agreement with Eastern Arizona College.
- Total liabilities, representing current obligations for general expenditures, increased by \$193,743. The reason for this increase was the receipt, in error, of Arizona Workforce Development Funds of \$226,217, recorded as a liability at June 30, 2005, which was reverted in fiscal year 2006.
- There was an increase of \$583,405 in net assets for the year ended June 30, 2005, the second year of operation for the District, indicating the financial position of the District is improving.
- General revenues increased in fiscal year 2005 primarily because the District received two new sources of revenue: a State appropriation of \$325,000 and a Gila County allocation of \$250,000.

- The 2005 Education expenses increased 23 percent over 2004 to \$2,741,971. Expenses overall increased significantly, as contractual services, including personnel compensation and benefits, increased by \$416,742.

General Fund Budget

The Gila County Provisional Community College District's actual education expenditures were \$171,968 less than budgeted amounts due to management's cost effective approach to spending. However, the expenditures for capital outlays of \$206,091, which were not budgeted, resulted in the total expenditures exceeding total budget by \$34,123.

The actual program and general revenues exceeded budget by \$412,772 for the year ended June 30, 2005. For the second operating year, the revenue budget was prepared using an economical approach and the actual revenues exceeded anticipations resulting in an excess of revenues over budget. The excess revenues over budget resulted primarily from non-budgeted or under-budgeted sources as follows:

Non-budgeted Sources:	
Small Business Development Center Grant	\$39,678
Private Grants	33,650
Book Sales	84,637
NAVIT Educational Agreement	98,510
Under-budgeted Source	
Property Taxes—Gila County	112,728

Additional budgetary information can be found on pages 9 and 10 of this report.

Capital Assets

The District's total investment in capital assets, net of accumulated depreciation, is \$223,258 which is comprised of equipment and vehicles. There were no capital assets for the District in fiscal year 2004. For fiscal year 2005, the majority of capital assets were acquired as a result of current year purchases and a settlement agreement between Eastern Arizona College and the District. Please see Note 3 to the basic financial statements on pages 6 and 7 for additional information on capital asset activity.

Current Factors Having Probable Future Financial Significance

Tuition has increased significantly at Pima County Community College District, who is the current provider for postsecondary education in Gila County. This increase in tuition has had a negative impact on student enrollment. A large majority of the students attend the community college on a part-time basis, and many are working adults raising families. As stated in the District's Mission Statement, providing access to quality higher education requires that tuition and related costs remain affordable, and the significant increases, while attempting to offset operating expenses, did not keep higher education affordable to residents of the economically challenged rural communities of Gila County.

Eastern Arizona College (EAC) provided postsecondary education in Gila County through an intergovernmental agreement with Gila County prior to the formation of the Gila County Provisional Community College District. On June 27, 2003, Gila County and the Gila County Provisional Community College District (collectively "Gila County") filed a lawsuit against EAC alleging that EAC had received certain state aid and other monies to which Gila County was entitled. Gila County also alleged that it was the rightful owner of certain personal property, including motor vehicles, computer equipment, furniture, consumables and general intangibles. EAC filed a counter claim against Gila County denying all claims and any other liability or wrongdoing, and asserting that it was the rightful owner of all property at issue. The Gila County Board of Supervisors and the Governing Board of EAC approved a settlement agreement on April 8, 2005. Under the agreement, EAC dropped its claim of ownership to all of the property specified in the lawsuit. In conjunction with the settlement agreement, Gila County and EAC entered into an intergovernmental agreement and an operating agreement that EAC will provide educational programs and services within Gila County beginning July 1, 2005 through June 30, 2015. Under this new agreement, EAC will perform the services formerly performed by Pima County Community College.

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 Governing Board President Robert S. Ashford at (928) 425-8481.

Gila County Provisional Community College District
(Gila Community College)
Governmental Fund Balance Sheet/Statement of Net Assets
June 30, 2005

	<u>General Fund</u>	<u>Reconciliation (Note 5)</u>	<u>Statement of Net Assets</u>
Assets			
Current assets:			
Cash and investments	\$ 1,293,485		\$ 1,293,485
Property taxes receivable	80,025		80,025
Government grants receivable	13,515		13,515
Other receivables	<u>31,089</u>		<u>31,089</u>
Total current assets	<u>1,418,114</u>		<u>1,418,114</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation		<u>\$ 223,258</u>	<u>223,258</u>
Total noncurrent assets		<u>223,258</u>	<u>223,258</u>
Total assets	<u>\$ 1,418,114</u>	<u>223,258</u>	<u>1,641,372</u>
Current liabilities			
Due to other governments	\$ 642,704		642,704
Deferred revenue	<u>64,777</u>	<u>(64,777)</u>	<u> </u>
Total liabilities	<u>707,481</u>	<u>(64,777)</u>	<u>642,704</u>
Fund balance/Net assets			
Fund balance:			
Unreserved	<u>710,633</u>	<u>(710,633)</u>	
Total fund balance	<u>710,633</u>	<u>(710,633)</u>	
Total liabilities and fund balance	<u>\$ 1,418,114</u>	<u>(775,410)</u>	
Net assets:			
Invested in capital assets, net of related debt		223,258	223,258
Unrestricted		<u>775,410</u>	<u>775,410</u>
Total net assets		<u>\$ 998,668</u>	<u>\$ 998,668</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, 2005

	<u>General Fund</u>	<u>Reconciliation (Note 5)</u>	<u>Statement of Activities</u>
Expenditures/Expenses:			
Education	\$ 2,715,455	\$ 26,516	\$ 2,741,971
Capital outlay	206,091	(206,091)	
Total expenditures/expenses	<u>2,921,546</u>	<u>(179,575)</u>	<u>2,741,971</u>
Program revenues:			
Charges for services	149,653		149,653
Operating grants and contributions	<u>73,328</u>		<u>73,328</u>
Total program revenues	<u>222,981</u>		<u>222,981</u>
Net expenses	2,698,565	(179,575)	2,518,990
General revenues:			
Property taxes	2,383,951	(18,502)	2,365,449
State appropriations	325,000		325,000
Gila County allocation	250,000		250,000
Investment earnings	14,652		14,652
Capital grants and gifts		43,683	43,683
Other	<u>103,611</u>		<u>103,611</u>
Total general revenues	<u>3,077,214</u>	<u>25,181</u>	<u>3,102,395</u>
Net change in fund balance	378,649	(378,649)	
Change in net assets		583,405	583,405
Fund balance/Net assets:			
July 1, 2004	<u>331,984</u>	<u>83,279</u>	<u>415,263</u>
June 30, 2005	<u>\$ 710,633</u>	<u>\$ 288,035</u>	<u>\$ 998,668</u>

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

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

During the year ended June 30, 2005, the District implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the District's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

A. Reporting Entity

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

District personnel are not directly employed by the District. The administrative staff are directly employed by Gila County, and the instructional staff are directly employed by Pima County Community College District. The cost of the personnel compensation and related benefits is paid to Gila County and Pima County Community College District through their respective intergovernmental agreements.

The District entered into an intergovernmental agreement with Gila County on July 1, 2004. The agreement established that Gila County will provide facilities for college classes, staff to administer community college programs, payroll services, and human resources services. In addition, Gila County agreed to forward to the District, on a monthly basis, one-twelfth of the total amount of the primary tax collected for community college services after subtracting the expenses for salaries and services including an administrative fee of 10 percent, and provide a monthly financial report. The agreement expired on June 30, 2005.

The District entered into an intergovernmental agreement with Pima County Community College District (Pima) beginning July 1, 2004, for educational services. The agreement established that Pima will provide certification of faculty; admission and registration of students; payroll services for Pima 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 Pima related functions; access to information relative to enrollments; and payment to adjunct faculty. The total fixed cost of the contract was \$1,214,407. There was also a variable cost portion, net of tuition and fees, estimated at \$98,466. This agreement expired on July 31, 2005.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2005

B. Basis of Presentation

The basic financial statements include the Governmental Fund Balance Sheet/Statement of Net Assets and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities.

The Governmental Fund Balance Sheet/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, net of related debt, represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. 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.

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 and expenditures/expenses are classified as either program or general, 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 program revenues. Other revenues used for instruction and student services, such as property taxes and investment earnings, are not generated from operations and are considered to be general revenues.

C. Basis of Accounting

The fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred.

The government-wide 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.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2005

D. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand and cash and investments held by the County Treasurer. All investments are stated at fair value.

E. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Equipment	\$1,000	Straight-line	5 years
Vehicles	\$1,000	Straight-line	5 years

F. Property Tax Revenues

The Gila 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.

G. Investment Earnings

Investment earnings consist of interest earned on cash and investments and net changes in the fair value of investments held by the County Treasurer.

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. Although not statutorily required, the District has also chosen to deposit other public monies in its custody with the County Treasurer. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District's investments.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2005

Deposits—At June 30, 2005, the carrying amount and bank balances of the District’s deposits were \$214,604. Of this amount, \$41,628 was exposed to custodial credit risk since deposits that exceeded federal depository insurance coverage were uncollateralized. The District does not have a formal policy regarding custodial credit risk for bank deposits.

Investments—At June 30, 2005, the District’s investments consisted of the following:

Investment Type	Amount
Investment in County Treasurer’s investment pool	\$1,078,881

The District’s investment in the County 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 therefore, it is not subject to custodial credit risk. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. The District does not have a formal policy regarding custodial credit risk for investments.

Credit risk—The District does not have a formal policy with respect to credit risk. At June 30, 2005, credit risk for the District’s investments was as follows:

Investment Type	Rating	Rating Agency	Amount
County Treasurer’s investment pool	Unrated	Not applicable	\$1,078,881

Interest rate risk—The District does not have a formal policy regarding interest rate risk for investments. At June 30, 2005, the District had the following investments in debt securities:

Investment Type	Investment Maturities	
	Amount	Less than 1 year
County Treasurer’s investment pool	\$1,078,881	\$1,078,881

A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Assets follows:

Cash, deposits, and investments:		Statement of Net Assets:	
Cash and deposits	\$ 214,604	Cash and investments	\$1,293,485
Investments	<u>1,078,881</u>		
Total	<u>\$1,293,485</u>	Total	<u>\$1,293,485</u>

Note 3 - Capital Assets

Ownership of certain capital assets acquired from 1971 through 2001 was in dispute (see Note 6 - Subsequent Events), and therefore, these assets were not previously reported in the financial statements. The settlement agreement, approved April 8, 2005, established that the District owned these assets, and therefore, they are shown as current-year increases.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2005

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Increases	Balance June 30, 2005
Capital assets being depreciated:			
Equipment	\$ -	\$1,672,473	\$1,672,473
Vehicles	-	<u>114,110</u>	<u>114,110</u>
Total capital assets being depreciated	<u>-</u>	<u>1,786,583</u>	<u>1,786,583</u>
Less accumulated depreciation for:			
Equipment	-	1,449,215	1,449,215
Vehicles	-	<u>114,110</u>	<u>114,110</u>
Total accumulated depreciation	<u>-</u>	<u>1,563,325</u>	<u>1,563,325</u>
Total capital assets, net of accumulated depreciation	<u>\$ -</u>	<u>\$ 223,258</u>	<u>\$ 223,258</u>

Note 4 - Operating Leases

The District leases office equipment under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$14,007 for the year ended June 30, 2005. The operating leases have remaining noncancelable terms of 4 years. The future minimum payments required under the operating leases at June 30, 2005, were as follows:

Year ending June 30	
2006	\$14,007
2007	14,007
2008	10,006
2009	<u>5,619</u>
Total minimum lease payments	<u>\$43,639</u>

Note 5 - Reconciliations

The reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets at June 30, 2005, was as follows:

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2005

Fund balance—governmental fund	\$710,633
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the fund.	64,777
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>223,258</u>
Net assets of governmental activities	<u>\$998,668</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, 2005, was as follows:

Net change in fund balance—governmental fund	\$378,649
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.	(18,502)
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 expense.	
Capital outlay	206,091
Depreciation expense	(26,516)
Some capital assets were received as gifts.	<u>43,683</u>
Change in net assets of governmental activities	<u>\$583,405</u>

Note 6 - Subsequent Events

On June 27, 2003, Gila County and the Gila County Provisional Community College District (collectively, "Gila County") filed a lawsuit against Eastern Arizona College (EAC) in the Arizona Superior Court, related to the parties' obligations and rights pursuant to the intergovernmental agreements they had entered into and the statutes governing community college districts. Gila County alleged that EAC had received certain state aid and other monies to which Gila County was entitled. Gila County further alleged that it was the rightful owner of certain personal property, including motor vehicles, computer equipment, furniture, consumables, and general intangibles. EAC filed a counterclaim, asserting that EAC was the rightful owner of the personal property at issue. The parties settled their differences in a settlement agreement approved by the Gila County Board of Supervisors on April 8, 2005. Under the agreement, the EAC dropped its claim of ownership to all of the property specified in the lawsuit. In addition, Gila County and EAC entered into an intergovernmental agreement and an operating agreement that EAC will provide educational programs and services to the District beginning July 1, 2005 through June 30, 2015.

Gila County Provisional Community College District
(Gila Community College)
Required Supplementary Information
Budgetary Comparison Schedule—General Fund
Year Ended June 30, 2005

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Charges for services	\$ 25,000	\$ 149,653	\$ 124,653
Operating grants and contributions		73,328	73,328
Property taxes	2,271,223	2,383,951	112,728
State appropriations	325,000	325,000	
Gila County allocation	250,000	250,000	
Investment earnings		14,652	14,652
Other	<u>16,200</u>	<u>103,611</u>	<u>87,411</u>
Total revenues	<u>2,887,423</u>	<u>3,300,195</u>	<u>412,772</u>
Expenditures			
Education	2,887,423	2,715,455	171,968
Capital outlay		<u>206,091</u>	<u>(206,091)</u>
Total expenditures	<u>2,887,423</u>	<u>2,921,546</u>	<u>(34,123)</u>
Net change in fund balance		378,649	378,649
Fund balance:			
July 1, 2004	<u>331,984</u>	<u>331,984</u>	
June 30, 2005	<u>\$ 331,984</u>	<u>\$ 710,633</u>	<u>\$ 378,649</u>

See accompanying note to budgetary comparison schedule.

Gila County Provisional Community College District
(Gila Community College)
Required Supplementary Information
Note to Budgetary Comparison Schedule
June 30, 2005

Note - Budgeting and Budgetary Control

Arizona Revised Statutes require the District to prepare and adopt a budget annually. 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 shall contain the estimated cost of all operating, capital outlay, and debt service expenditures. For fiscal year 2005, the District exceeded budgeted expenditures by \$34,123 due to the District not including capital outlay expenditures in the original and final budget.



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Basic Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Governing Board of
Gila County Provisional Community College District

We have audited 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, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 6, 2009. Our report was qualified as to the capital assets balance on the Statement of Net Assets and was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40. 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.

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 opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 05-01.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Arizona State Legislature and the Governing Board 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 6, 2009

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
Year Ended June 30, 2005

05-01

The District should strengthen controls over its capital assets

The District has invested a significant amount of money in its capital assets. In order to protect its investment, the District should have an accurate list of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not maintain such a listing, which resulted in the auditors expressing a qualified opinion on the District's June 30, 2005, financial statements. Also, capital asset items were not specifically identified with permanent tags or other identifying numbers. In addition, the District did not have written policies and procedures to control and account for capital assets and had not assigned an employee to be responsible for controlling capital assets. Finally, employees purchased capital asset items without a supervisor's approval.

The following procedures can help the District ensure its capital assets listing is accurate and complete and the items are properly controlled:

- Develop written capital assets policies and procedures, which include identifying the supervisor who must approve all capital asset purchases.
- Assign an employee to be responsible for physical control of capital assets.
- Develop written capital assets policies and procedures.
- Prepare, maintain, and update annually a capital assets listing that includes all equipment and vehicles with unit costs of \$1,000 or more and useful lives of 1 year or more.
- Affix a permanent tag with an identifying number to each equipment item costing \$1,000 or more, or specifically identify the asset on the list by some other means, such as a serial number.
- Perform a physical inventory of capital assets at least every 3 years and reconcile the results of the inventory with the capital assets listing. Add or remove items from the listing as necessary.

Gila County Provisional Community College District
(Gila Community College)
Corrective Action Plan
Year Ended June 30, 2005

05-01

The District should strengthen controls over its capital assets

Name of contact person: Stephen Cullen, Ph.D.

Anticipated completion date: June 2009

District response: Concur

District Corrective Action Plan: The District has performed steps to correct this deficiency as noted below:

- We have implemented an asset tagging and inventory system.
- We have an employee who is responsible for maintaining the inventory of all assets, tagging of assets, and maintaining the records in support of our capital asset inventory.