



*Graham County  
Community College District*

An aerial photograph of a modern college building. The building is constructed of red brick with a large glass entrance. A wide, paved walkway leads from the foreground towards the building. Several people are walking on the path. The building is surrounded by green lawns and trees. In the background, mountains are visible under a clear blue sky.

# Annual Financial Report

**June 30, 2014**

**Graham County**  
**Community College District**  
(Eastern Arizona College)  
Single Audit Reporting Package  
June 30, 2014

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Single Audit Reporting Package  
Year Ended June 30, 2014**

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**Graham County  
Community College District**  
(Eastern Arizona College)  
Financial Section  
June 30, 2014



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Governing Board of  
Graham County Community College District

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Graham County Community College District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Graham County Community College District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, 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.

### *Supplementary Information—Schedule of Expenditures of Federal Awards*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2015, 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* in considering the District's internal control over financial reporting and compliance.

Debbie Davenport  
Auditor General

March 24, 2015



## Management's Discussion and Analysis

This discussion and analysis provides an overview of the District's financial activities for the year ended June 30, 2014. Please read it in conjunction with the financial statements, which immediately follow.

### Basic Financial Statements:

The District's financial statements are presented in accordance with standards established by the Governmental Accounting Standards Board (GASB), the authoritative body for establishing Generally Accepted Accounting Principles (GAAP) for state and local governments, including public institutions of higher education. These standards permit public colleges and universities to use the guidance for special-purpose governments engaged in business-type activities in their separately issued financial statements. As such, the reader will observe that the presentation is a consolidated, single-column, entity-wide format, similar to the type of financial statements one might encounter from a typical business enterprise. The basic financial statements consist of the following:

The *Statement of Net Position* reflects the financial position of the District at June 30, 2014. It shows the various assets owned, related liabilities and other obligations, and the various categories of net position. Net position is an accounting concept defined as total assets less total liabilities, and as such, represents institutional equity or ownership in the total assets of the District.

The *Statement of Revenues, Expenses, and Changes in Net Position* reflects the results of operations and other changes for the year ended June 30, 2014. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net position amount to the ending net position amount, which is shown on the *Statement of Net Position* described above.

The *Statement of Cash Flows* reflects the inflows and outflows of cash and cash equivalents for the year ended June 30, 2014. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the *Statement of Net Position* described above. In addition, this statement reconciles cash flows from operating activities to operating loss on the *Statement of Revenues, Expenses, and Changes in Net Position* described above.

### Financial Highlights and Analysis:

Consistent with its mission to provide open access to quality higher education, instruction is the primary function of the Graham County Community College District. Major funding sources supporting all functions include property taxes, state appropriations, government grants and contracts, and tuition and fees. The District exercises primary tax levy authority for generation of funds used for operations and capital equipment. The District is struggling to reduce expenses in the face of reduced enrollment and reduced state support.

### Condensed Financial Information:

The condensed financial information below highlights the main categories of the *Statement of Net Position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Significant variances in assets and liabilities are discussed below. The result of these variances was a 5% decrease in total net position between fiscal years.

#### *Condensed Schedule of Net Position As of June 30, 2014 and June 30, 2013*

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
<b>Assets:</b>			
Current assets	\$ 42,408,104	\$ 45,157,084	-6%
Noncurrent assets			
Capital assets, net	<u>37,837,576</u>	<u>38,079,576</u>	-1%
<b>Total assets</b>	<b><u>80,245,680</u></b>	<b><u>83,236,660</u></b>	-4%
<b>Liabilities:*</b>			
Other liabilities	3,802,601	3,084,778	23%
Long-term liabilities	<u>1,928,573</u>	<u>1,887,978</u>	2%
<b>Total liabilities</b>	<b><u>5,731,174</u></b>	<b><u>4,972,756</u></b>	15%
<b>Net Position:</b>			
Net investment in capital assets	37,837,576	38,079,576	-1%
Restricted net position	2,064,561	2,059,454	0%
Unrestricted net position	<u>34,612,369</u>	<u>38,124,874</u>	-9%
<b>Total net position</b>	<b><u>\$ 74,514,506</u></b>	<b><u>\$ 78,263,904</u></b>	-5%

*\*In FY 13, other liabilities were reported as current liabilities, and long-term liabilities were reported as noncurrent liabilities.*

### Significant Changes in Assets:

The District's current assets decreased by \$2,748,980 or 6%, from the prior year. Cash, the major component of current assets, decreased by \$2,124,596 due to the District spending more than the revenues received and property acquisitions of \$438,148. Accounts receivable decreased favorably by \$619,218, or a decrease of 22%. Property taxes receivable decreased by \$340,401, which reflects an increase in collection of prior-year delinquent taxes. Other receivables decreased by \$232,832, as the result of a focused student debt collections project. Government grants and contracts receivable decreased by \$45,985.

### Significant Changes in Liabilities:

Total liabilities increased by \$758,418, or 15%. This is primarily due to the partially self-funded health insurance program implemented by the district. At June 30, 2014 an additional \$600,919, an increase of 59%, was estimated to pay outstanding insurance claims, as well as future health insurance claims (see additional information in Note 5).

There was also a decrease in accounts payable of \$304,828, or 54%, which also contributed to the decrease in cash mentioned in the changes in assets. Compensated absences payable increased by \$217,637, or 9%. This is attributed to an increase in base wages and employees 'banking' more vacation days.

### Significant Changes in Net Position:

In whole, the District's total net position decreased by \$3,749,398, or 5%, due to the decrease of assets and the increase of liabilities explained above.

The condensed financial information below highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Position*. The District's operating revenues in relation to its operating expenses generates an operating loss at June 30, 2014. This loss is reflective of the fact that three main revenue sources, property taxes, state appropriations, and government grants are considered nonoperating revenues. For a description of the difference between operating and nonoperating revenues, please refer to the Summary of Significant Accounting Policies (Note 1). Significant variances in revenues and expenses are discussed after the following table.

***Condensed Schedule of Changes in Revenues, Expenses, and Net Position  
For the Years Ended June 30, 2014 and 2013***

<b>Operating revenues:</b>	<b>2014</b>	<b>2013</b>	<b>% Change</b>
Tuition and fees	\$ 2,669,033	\$ 3,453,406	-23%
Government contracts	4,978,235	5,469,037	-9%
Other	865,282	1,318,242	-34%
<b>Total operating revenues</b>	<b><u>8,512,550</u></b>	<b><u>10,240,685</u></b>	-17%
<b>Nonoperating revenues:</b>			
Property taxes	5,250,000	5,127,414	2%
State appropriations	18,420,800	19,240,500	-4%
Government grants	6,492,932	6,438,971	1%
Other	530,092	543,136	-2%
<b>Total nonoperating revenues</b>	<b><u>30,693,824</u></b>	<b><u>31,350,021</u></b>	-2%
<b>Total revenues</b>	<b><u>39,206,374</u></b>	<b><u>41,590,706</u></b>	-6%
<b>Operating expenses:</b>			
Instruction	16,725,727	16,681,528	0%
Academic support	805,474	748,250	8%
Student services	5,646,481	5,369,782	5%
Institutional support	8,052,299	7,639,400	5%
Operation and maintenance of plant	4,227,621	4,098,517	3%
Scholarships	2,975,667	2,996,833	-1%
Auxiliary enterprises	2,678,034	2,918,447	-8%
Depreciation	2,062,569	1,910,465	8%
<b>Total operating expenses</b>	<b><u>43,173,872</u></b>	<b><u>42,363,222</u></b>	2%
Income before other revenues, expenses, gains, or losses	<u>(3,967,498)</u>	<u>(772,516)</u>	414%
Capital appropriations	218,100	-	N/A
<b>Change in net position</b>	<b>(3,749,398)</b>	<b>(772,516)</b>	385%
<b>Beginning net position</b>	<u>78,263,904</u>	<u>79,036,420</u>	
<b>Ending net position</b>	<b><u>\$ 74,514,506</u></b>	<b><u>\$ 78,263,904</u></b>	-5%

### Significant Changes in Revenues:

Operating revenues decreased \$1,728,135, or 17%. Revenue from the contract with Gila County Provisional College declined by \$623,971, mainly due to a mutually-agreeable tuition adjustment. Reported Tuition and fees decreased by \$784,373, or 23% over last year, due to a 7% decrease in student enrollment and a \$251,420 increase in the scholarship allowance adjustment.

Non-operating revenues decreased slightly by \$656,197, or 2%. Property tax revenues increased slightly by \$122,586, or about 2%. State appropriations decreased by \$819,700 or 4% from the previous year. However for the first time since fiscal year 2008, \$218,100 was received from the State for capital appropriations. Basic FTSE decreased slightly by \$27,500, or 1%, and Equalization Aid decreased \$792,200, or 5% according to formula. Government grants increased marginally by \$53,961, or 1%, mostly due to a slight increase in Pell Grants of \$35,234, or 1% over the prior year.

### Significant Changes in Expenses:

Operating expenses increased by \$810,650 or less than 2%. The increase is mainly due to an increase in the base pay tables. Due to the decrease in overall revenues, operating expenses have been only minimally increased.

### Capital Assets Administration

As of June 30, 2014, the District's capital assets, net of accumulated depreciation, totaled \$37.8 million, a decrease of \$242,000, or less than 1% from the prior year. Capital assets include land, equipment, buildings, improvements other than buildings, library books, and construction in progress. Additional information on capital assets can be found in Note 3 to the District's financial statements.

### Current Factors Having Probable Future Financial Significance:

The sluggish tax revenue collections and continued conflicting attitudes within the Arizona State Legislature with regard to higher education create an uncertain outlook for future revenues.

As stated in the District's Mission Statement, providing access to quality higher education requires that tuition and related costs remain affordable. Despite an in-state tuition rate increase of 4% beginning in the fall of 2014, Eastern's tuition level will still be among the lowest in the state, making it an excellent choice for students.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Net Position – Primary Government  
June 30, 2014**

	<b>Business-Type Activities</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 40,131,710
Receivables (net of allowance for uncollectibles):	
Property taxes	346,286
Government grants and contracts	1,672,034
Other	191,391
Inventories	66,683
<b>Total current assets</b>	<b>42,408,104</b>
Noncurrent assets:	
Capital assets, not being depreciated	7,257,506
Capital assets, being depreciated, net	30,580,070
<b>Total noncurrent assets</b>	<b>37,837,576</b>
<b>Total assets</b>	<b>80,245,680</b>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	264,185
Accrued payroll and employee benefits	883,260
Insurance claims payable	1,625,944
Deposits held in custody for others	143,042
Unearned revenues	44,783
Current portion of compensated absences payable	841,387
<b>Total current liabilities</b>	<b>3,802,601</b>
Noncurrent liabilities:	
Compensated absences payable	1,928,573
<b>Total noncurrent liabilities</b>	<b>1,928,573</b>
<b>Total liabilities</b>	<b>5,731,174</b>
<b>Net Position</b>	
Net investment in capital assets	37,837,576
Restricted:	
Expendable for workforce development	2,064,561
Unrestricted	34,612,369
<b>Total net position</b>	<b>\$ 74,514,506</b>

See accompanying notes to financial statements.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Financial Position – Component Unit  
June 30, 2014**

	<b>Eastern Arizona College Foundation</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 100,237
Investments	4,579,468
Property and equipment, net	94,217
Museum collection	221,075
<b>Total assets</b>	<b>4,994,997</b>
<b>Liabilities</b>	
Accounts payable	154
Accrued expenses	24,970
Liability under split-interest agreements	148,360
<b>Total liabilities</b>	<b>173,484</b>
<b>Net Assets</b>	
Unrestricted	2,640,788
Temporarily restricted	1,687,097
Permanently restricted	493,628
<b>Total net assets</b>	<b>4,821,513</b>
<b>Total Net Assets and Liabilities</b>	<b>\$ 4,994,997</b>

See accompanying notes to financial statements.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Revenues, Expenses, and Changes in Net Position – Primary Government  
Year Ended June 30, 2014**

	<b>Business-Type Activities</b>
<b>Operating revenues:</b>	
Tuition and fees (net of scholarship allowances of \$3,681,666)	\$ 2,669,033
Government contracts	4,978,235
Private contracts	31,178
Food service income (net of scholarship allowances of \$663,215)	269,985
Dormitory rentals and fees (net of scholarship allowances of \$366,591)	361,411
Other	202,708
<b>Total operating revenues</b>	<b>8,512,550</b>
<b>Operating expenses:</b>	
Educational and general:	
Instruction	16,725,727
Academic support	805,474
Student services	5,646,481
Institutional support	8,052,299
Operation and maintenance of plant	4,227,621
Scholarships	2,975,667
Auxiliary enterprises	2,678,034
Depreciation	2,062,569
<b>Total operating expenses</b>	<b>43,173,872</b>
<b>Operating loss</b>	<b>(34,661,322)</b>
<b>Nonoperating revenues (expenses):</b>	
Property taxes	5,250,000
State appropriations	18,420,800
Government grants	6,492,932
Share of state sales taxes	512,489
Investment earnings	20,808
Loss on disposal of capital assets	(3,205)
<b>Total nonoperating revenues</b>	<b>30,693,824</b>
Income before other revenues, expenses, gains or losses	(3,967,498)
Capital appropriations	218,100
<b>Decrease in net position</b>	<b>(3,749,398)</b>
Total net position, July 1, 2013	78,263,904
<b>Total net position, June 30, 2014</b>	<b>\$ 74,514,506</b>

See accompanying notes to financial statements.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Activities – Component Unit  
Year Ended June 30, 2014**

	Eastern Arizona College Foundation			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue and Other Support</b>				
Foundation revenue	\$ 269,251	\$ -	\$ -	\$ 269,251
Contributions	72,890	180,195	500	253,585
Investment income	59,369	13,768	5,151	78,288
Net realized and unrealized gains on investments	225,654	156,723	56,422	438,799
Change in value of split-interest agreement	-	(18,371)	-	(18,371)
Net assets released from restrictions:				
Satisfaction of restrictions	201,566	(186,566)	(15,000)	-
<b>Total Revenue, Support, and Net Assets Released from Restrictions</b>	<b>828,730</b>	<b>145,749</b>	<b>47,073</b>	<b>1,021,552</b>
<b>Expenses</b>				
General and administrative	321,375	-	-	321,375
Scholarship awards	229,603	-	-	229,603
Fundraising	19,287	-	-	19,287
<b>Total Expenses</b>	<b>570,265</b>	<b>-</b>	<b>-</b>	<b>570,265</b>
<b>Change in net assets</b>	<b>258,465</b>	<b>145,749</b>	<b>47,073</b>	<b>451,287</b>
Net assets at July 1, 2013	2,382,323	1,541,348	446,555	4,370,226
<b>Net assets at June 30, 2014</b>	<b>\$ 2,640,788</b>	<b>\$ 1,687,097</b>	<b>\$ 493,628</b>	<b>\$ 4,821,513</b>

See accompanying notes to financial statements.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Cash Flows – Primary Government  
Year Ended June 30, 2014**

	<b>Business-Type Activities</b>
<b>Cash flows from operating activities</b>	
Tuition and fees	\$ 2,780,792
Government contracts	5,303,047
Private contracts	31,178
Food service receipts	269,985
Dormitory rentals and fees	361,411
Other receipts	323,781
Payments to suppliers and providers for goods and services	(12,139,840)
Payments for employee wages and benefits	(25,230,953)
Payments to students for scholarships	(2,969,384)
<b>Net cash used for operating activities</b>	<b>(31,269,983)</b>
<b>Cash flows from noncapital financing activities:</b>	
Property taxes	5,590,401
State appropriations	18,420,800
Government grants	6,202,743
Share of state sales taxes	512,489
Deposits held in custody for others received	310,432
Deposits held in custody for others disbursed	(306,612)
<b>Net cash provided by noncapital financing activities</b>	<b>30,730,253</b>
<b>Cash flows from capital and related financing activities:</b>	
Capital appropriations	218,100
Proceeds from sale of capital assets	11,506
Payments made to contractors	(14,629)
Purchase of capital assets	(1,820,651)
<b>Net cash used for capital and related financing activities</b>	<b>(1,605,674)</b>
<b>Cash flows from investing activities:</b>	
Interest received on investments	20,808
<b>Net cash provided by investing activities</b>	<b>20,808</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,124,596)</b>
Cash and cash equivalents, July 1, 2013	42,256,306
<b>Cash and cash equivalents, June 30, 2014</b>	<b>\$ 40,131,710</b>

(Continued)

See accompanying notes to financial statements.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Cash Flows – Primary Government  
Year Ended June 30, 2014  
(Continued)**

<b>Reconciliation of operating loss to net cash used for operating activities:</b>	<b>Business-Type Activities</b>
Operating loss	<u>\$ (34,661,322)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	2,062,569
Changes in assets and liabilities:	
Increase in:	
Compensated absences payable	217,637
Accrued payroll and employee benefits	252,231
Insurance claims payable	600,920
Decrease in:	
Government grants and contracts receivable	324,812
Accounts payable	(304,828)
Inventories	5,166
Other receivables	232,832
<b>Net cash used for operating activities</b>	<b><u>\$ (31,269,983)</u></b>

See accompanying notes to financial statements.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2014**

**Note 1 – Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

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

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

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

During the year ended June 30, 2014, the Foundation distributed \$228,145 to the District for both restricted and unrestricted purposes, including administrative and program support and scholarships. In addition, the District paid the Foundation \$247,780 under a contract for services to develop, coordinate, manage, and administer fundraising and alumni involvement programs for the District. Complete financial statements for the Foundation can be obtained from the Eastern Arizona College Foundation, 615 N. Stadium, Thatcher, Arizona, 85552.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2014**

**B. Basis of Presentation and Accounting**

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

A statement of net position provides information about the assets, liabilities and 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 District obligations. Net Investment in capital assets represents the value of capital assets net of accumulated depreciation. Expendable restricted net position represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net position consists of all other resources, including those that have been designated by management to be used for other than general operating purposes.

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

A statement of cash flows provides information about the District's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, noncapital financing, capital financing, or investing.

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue 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 position is available.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2014**

**C. Cash and Investments**

For the statement of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments in the State Treasurer's Local Government Investment Pool. All investments are stated at fair value.

**D. Inventories**

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

**E. Capital Assets**

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

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

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

**F. Investment Earnings**

Investment earnings are composed of interest.

**G. Compensated Absences**

Compensated absences payable consists of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may earn and accumulate vacation days according to their employment position and years of service. Vacation days earned per month range from .83 to 1.83

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2014**

with a maximum accumulation ranging between 24 and 44 days. Vacation days in excess of the maximums are forfeited at the end of each month. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees. Therefore, a liability for sick leave benefits is not accrued in the financial statements. However, for employees who meet certain requirements under the District's option plan, sick leave benefits do vest. The option provides payment up to the maximum of 100 days of accrued sick days multiplied by the employee's daily rate for employees who have at least 10 years of service and qualify for normal retirement, disability, or death benefit. An estimate of that amount is accrued as a liability in the financial statements.

#### **H. Scholarship Allowances**

A scholarship allowance is the difference between the stated charge for goods and services the District provides and the amount that is paid by the student or third parties making payments on behalf of the student. Accordingly, some types of student financial aid such as Pell grants and scholarships awarded by the District are considered to be scholarship allowances. These allowances are netted against tuition and fees, food service income, and dormitory rentals and fees in the statement of revenues, expenses, and changes in net position.

#### **Note 2 – Deposits and Investments**

Arizona Revised Statutes (A.R.S.) requires the District to deposit special tax levies for the District's maintenance or capital outlay with the County Treasurer. The statutes do not require the District to deposit other public monies in its custody with the County Treasurer; however, the District must act as a prudent person dealing with the property of another when making investment decisions about those monies. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District's investments.

**Deposits**—At June 30, 2014, the carrying amount of the District's deposits was \$(32,154) and the bank balance was \$154,558. The District does not have a formal policy with respect to custodial credit risk of deposits.

**Investments**—At June 30, 2014, the fair value of the District's share of the State Treasurer's Local Government Investment Pool 7 was \$40,163,864. The State Board of Investment provides oversight for the State Treasurer's pool. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2014**

**Credit risk**—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The District does not have a formal investment policy regarding credit risk. The State Treasurer’s Local Government Investment Pool 7 is unrated.

**Interest rate risk**—Interest rate risk is the risk that changes in interest rates will adversely affect an investment’s fair value. The District does not have a formal policy regarding interest rate risk. At June 30, 2014, the District’s investment in the State Treasurer’s Local Government Investment Pool 7 had a weighted average maturity of 18 days.

**Note 3 – Capital Assets**

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 6,801,382	\$ 438,148		\$ 7,239,530
Construction in progress	11,039	14,629	(7,692)	17,976
Total capital assets not being depreciated	<u>6,812,421</u>	<u>452,777</u>	<u>(7,692)</u>	<u>7,257,506</u>
Capital assets being depreciated:				
Buildings	45,474,281	71,958		45,546,239
Equipment	11,502,428	1,234,262	(198,248)	12,538,442
Improvements other than buildings	2,580,842	23,916		2,604,758
Library materials	934,090	60,059	(19,635)	974,514
Total capital assets being depreciated	<u>60,491,641</u>	<u>1,390,195</u>	<u>(217,883)</u>	<u>61,663,953</u>
Less accumulated depreciation for:				
Buildings	(18,979,787)	(1,032,450)		(20,012,237)
Equipment	(7,498,224)	(920,230)	183,537	(8,234,917)
Improvements other than buildings	(2,058,719)	(63,741)		(2,122,460)
Library materials	(687,756)	(46,148)	19,635	(714,269)
Total accumulated depreciation	<u>(29,224,486)</u>	<u>(2,062,569)</u>	<u>203,172</u>	<u>(31,083,883)</u>
Total capital assets being depreciated, net	31,267,155	(672,374)	(14,711)	30,580,070
Capital assets, net	<u>\$ 38,079,576</u>	<u>\$ (219,597)</u>	<u>\$ (22,403)</u>	<u>\$ 37,837,576</u>

The District has no major active construction projects and no contractual commitments at June 30, 2014.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2014**

**Note 4 – Long-Term Liabilities**

The following schedule details the District’s long-term liability and obligation activity for the year ended June 30, 2014:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Due within one year</u>
Compensated absences payable	\$2,552,323	\$898,694	\$681,057	\$2,769,960	\$841,387

**Note 5 – Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in the Arizona School Risk Retention Trust, Inc., a public-entity risk pool. The Trust insures the District against liabilities arising from general liability, professional liability, property, automobile, boiler and machinery, and commercial crime risks. The Trust’s operating agreement includes a provision for the member to be charged an additional assessment in the event that total claims paid by the Trust exceed the members’ contributions and reserves in any 1 year. The District will be charged for any such assessment in the following year. The District has never been charged such an assessment. The District also carries commercial insurance for other risks of loss, including: workers’ compensation, intercollegiate athletic injury liability and student professional liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

The District finances uninsured risks of loss for medical benefits to eligible employees and their dependents. The healthcare plan provides coverage for amounts up to \$100,000 per individual insured. The District purchases commercial insurance for claims in excess of this limit and performs analysis to determine the required annual funding based upon anticipated utilization, cost trends, and benefit levels. Independent administrators provide claim and recordkeeping services for the self-insured plan.

The insurance claims payable, of \$1,625,944 at June 30, 2014, includes the amount payable for health benefits. It is the estimated cost of settling claims that have been incurred and future claims that may occur. The District’s medical benefits for the fiscal year ended June 30, 2014, are as follows:

<u>Medical benefits:</u>	<u>2014</u>
Claims payable, beginning of year	\$ 1,025,025
Current year actual and estimated claims	2,979,564
Less: Claims payments	<u>2,378,645</u>
Estimated claims payable, end of year	<u>\$ 1,625,944</u>

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2014**

**Note 6 – Pension and Other Postemployment Benefits**

**Plan Descriptions**—The District contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report is available on its Web site at [www.azasrs.gov](http://www.azasrs.gov), by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

**Funding Policy**—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2014, active plan members were required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll. The District was required by statute to contribute at the actuarially determined rate of 11.54 percent (10.70 percent for retirement, 0.60 percent for health insurance premium benefit, and 0.24 percent for long-term disability) of members' annual covered payroll.

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

Years ended June 30:	Retirement Fund	Health Benefit Supplement Fund	Long – Term Disability Fund	Totals
2014	\$1,738,653	\$97,495	\$38,998	\$1,875,146
2013	1,640,026	104,002	38,401	1,782,429
2012	1,540,456	91,712	37,307	1,669,475

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2014**

**Note 7 – Operating Expenses**

The District's operating expenses are presented by functional classification in the Statement of Revenues, Expenses, and Changes in Net Position—Primary Government. The operating expenses can also be classified into the following:

Personal services	\$ 29,472,382
Contract services	2,378,473
Supplies and other services	2,622,269
Communications and utilities	1,420,135
Scholarships	2,969,384
Depreciation	2,062,569
Other	<u>2,248,660</u>
Total	<u>\$ 43,173,872</u>

**Note 8 – Discretely Presented Component Unit Disclosures**

The District's discretely presented component unit is comprised of the Eastern Arizona College Foundation.

**A. Nature of Activities and Significant Accounting Policies**

The primary objective of the Eastern Arizona College Foundation is to create a positive environment in which to cultivate gifts to Eastern Arizona College, located in Thatcher, Arizona. The Foundation makes use of unrestricted, temporarily restricted and permanently restricted funds, which are all related to the primary objective. The primary source of Foundation revenue is alumni and friends of Eastern Arizona College as well as the College itself.

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

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification. Under the Codification, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2014**

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

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. Contributions are recorded as income in the period received. Unconditional promises to give are booked when the "promise" is received or made, not when the gift is transferred. Conditional promises to give or receive are recorded when the specified future and uncertain event occurs or when the conditions outlined by the donor are substantially met.

Support and investment income that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor-restricted support and investment income are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair value at the date of donation.

The Foundation is exempt from income taxes as a non-profit corporation under Internal Revenue Code 501(c)(3) and, accordingly, the financial statements do not reflect a provision for income taxes. The Foundation has been classified as a charitable organization that is not a private foundation under Section 509(a)(2).

**B. Investments**

Investments at June 30, 2014, were comprised of the following:

Equity mutual funds	\$ 230,188
Corporate bonds	109,931
Managed investment account	4,239,349
	<hr/>
	\$ 4,579,468

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2014**

**C. Museum Collection**

Collections, which consist entirely of the museum collection of Native American artifacts, are stated at appraised market value at date of acquisition. The Foundation is responsible for the preservation of the collection.

**D. Split-Interest Agreement and Gift Annuity**

In 1989, the Foundation was named the remainder beneficiary and trustee of a charitable remainder unitrust. The Unitrust beneficiaries will be paid a percentage annually of the fair value of the trust assets in quarterly payments for the rest of their natural lives. At the end of the Trust's term, the remaining assets are available for the Foundation's use. Assets held in the charitable remainder unitrust are reported at fair value and at June 30, 2014, totaled \$183,424, (consisting of cash and marketable securities of \$16,934 and \$166,490, respectively). Fair value measurements at the reporting date are determined using quoted prices in active markets (Level 1 fair value hierarchy). On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments (\$61,623 at June 30, 2014) is calculated using the trust rate of 9% and applicable mortality tables.

During fiscal 2009, the Foundation was the recipient of a gift annuity. Under the terms of the gift annuity the donor will be paid \$6,000 annually for the remainder of the annuitant's natural life. At the end of the annuity the remaining assets are available for the Foundation's use. Assets held for the annuity are reported at fair value and at June 30, 2014, totaled \$92,143 (consisting of cash and marketable securities of \$3,851 and \$88,292, respectively). Fair value measurements at the reporting date are determined using quoted prices in active markets (Level 1 fair value hierarchy). On an annual basis, the Foundation revalues the annuity liability to make distributions to the annuitant based on actuarial assumptions. The present value of the estimated future payments (\$33,035 at June 30, 2014) is calculated using the trust rate of 6% and applicable mortality tables.

During the current fiscal year the Foundation was the recipient of another gift annuity. Under the terms of the gift annuity the donor will be paid \$6,300 annually for the remainder of the joint annuitants' natural lives. At the end of the annuity the remaining assets are available for the Foundation's use. Assets held for the annuity are reported at fair value and at June 30, 2014, totaled \$96,630 (consisting of cash and marketable securities of \$11,293 and \$85,337, respectively). Fair value measurements at the reporting date are determined using quoted prices in active markets (Level 1 fair value hierarchy). On an annual basis, the Foundation revalues the annuity liability to make distributions to the annuitant based on actuarial assumptions. The present value of the estimated future payments (\$53,702 at June 30, 2014) is calculated using the trust rate of 9% and applicable mortality tables.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2014**

**E. Endowments**

Changes in endowment net assets for the year ending June 30, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$1,737,201	\$1,339,524	\$446,555	\$3,523,280
Contributions		180,195	500	180,695
Investment income	20,605	13,768	5,151	39,524
Net gain (loss) on investments	225,654	156,723	56,422	438,799
Appropriated for expenditure	<u>(71,730)</u>	<u>(186,566)</u>	<u>(15,000)</u>	<u>(273,296)</u>
Endowment net assets, ending	<u>\$1,911,730</u>	<u>\$1,503,644</u>	<u>\$493,628</u>	<u>\$3,909,002</u>

**F. Concentrations**

The Foundation maintains cash and cash equivalents at banks and other financial institutions located in Arizona, Massachusetts, and New Jersey which throughout the year may exceed federally insured deposit limits.

The Foundation's investments in marketable securities are under the management of one mutual fund manager, Hanlon Investment Management, Inc. of Egg Harbor Township, New Jersey. The managed investment account is managed by the TIAA-CREF Trust Company, FSB, of Boston, Massachusetts.

**Supplementary Information**

**Graham County Community College District  
(Eastern Arizona College)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014**

Federal agency/CFDA number (Note 2)	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number	Program expenditures
<b>Department of the Interior</b>					
15 231	Fish, Wildlife and Plant Conservation Resource Management				\$ <u>45,783</u>
<b>National Science Foundation</b>					
47 041	Engineering Grants				<u>18,002</u>
<b>Small Business Administration</b>					
59 037	Small Business Development Centers		Maricopa County Community College District	SBAHQ-13-B- 0061, SBAHQ-14- B-0050	<u>109,097</u>
<b>Department of Education</b>					
84 048	Career and Technical Education—Basic Grants to States		Arizona Department of Education	13FCTDBG- 370551-01A, 14FCTDBG- 470551-01A	222,260
84 334	Gaining Early Awareness and Readiness for Undergraduate Programs				<u>754,836</u>
84 007	Federal Supplemental Educational Opportunity Grants	Student Financial Assistance Cluster			<u>103,578</u>
84 033	Federal Work-Study Program	Student Financial Assistance Cluster			<u>220,466</u>
84 063	Federal Pell Grant program	Student Financial Assistance Cluster			<u>4,885,575</u>
	<i>Total Student Financial Assistance Cluster</i>				<u>5,209,619</u>
	<b>Total Department of Education</b>				<u>6,186,715</u>
	<b>Total expenditures</b>				<u>\$ 6,359,597</u>

Graham County Community College District  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Graham County Community College District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2014 *Catalog of Federal Domestic Assistance*.



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of  
Graham County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Graham County Community College District as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 24, 2015. Our report includes a reference to other auditors who audited the financial statements of the Eastern Arizona College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. 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. However, the financial statements of the Eastern Arizona College Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Eastern Arizona College Foundation.

**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) to determine the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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 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*.

### **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.

Debbie Davenport  
Auditor General

March 24, 2015

**Graham County**  
**Community College District**  
(Eastern Arizona College)  
Single Audit Section  
June 30, 2014



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance**

Members of the Arizona State Legislature

The Governing Board of  
Graham County Community College District

**Report on Compliance for Each Major Federal Program**

We have audited Graham County Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, Graham County Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## **Report on Internal Control over Compliance**

The District's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Debbie Davenport  
Auditor General

March 24, 2015

Graham County Community College District  
(Eastern Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014

**Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unmodified	
	<b>Yes</b>	<b>No</b>
Internal control over financial reporting:		
Material weaknesses identified?	___	<u>  X  </u>
Significant deficiencies identified?	___	<u>  X  </u> (None reported)
Noncompliance material to the financial statements noted?	___	<u>  X  </u>

**Federal Awards**

Internal control over major programs:		
Material weaknesses identified?	___	<u>  X  </u>
Significant deficiencies identified?	___	<u>  X  </u> (None reported)
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	___	<u>  X  </u>

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.048	Career and Technical Education—Basic Grants to States

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000	
Auditee qualified as low-risk auditee?	<u>  X  </u>	___

**Other Matters**

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	___	<u>  X  </u>
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Graham County Community College District  
(Eastern Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014

Financial Statement Findings

None reported.

Federal Award Findings and Questioned Costs

None reported.