



*Graham County  
Community College District*

# **Annual Financial Report**

**June 30, 2012**

**Graham County**  
**Community College District**  
(Eastern Arizona College)  
Single Audit Reporting Package  
June 30, 2012

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Single Audit Reporting Package  
Year Ended June 30, 2012**

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**Graham County  
Community College District**  
(Eastern Arizona College)  
Financial Section  
June 30, 2012



**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

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Graham County Community College District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Graham County Community College District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of the District's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport  
Auditor General

March 27, 2013



## Management's Discussion and Analysis

This discussion and analysis provides an overview of the District's financial activities for the year ended June 30, 2012. Please read it in conjunction with the financial statements, which immediately follow.

### Basic Financial Statements:

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

The *Statement of Net Assets* reflects the financial position of the District at June 30, 2012. It shows the various assets owned, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represents institutional equity or ownership in the total assets of the District.

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects the results of operations and other changes for the year ended June 30, 2012. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net assets amount, which is shown on the *Statement of Net Assets* described above.

The *Statement of Cash Flows* reflects the inflows and outflows of cash and cash equivalents for the year ended June 30, 2012. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the *Statement of Net Assets* described above. In addition, this statement reconciles cash flows from operating activities to operating loss on the *Statement of Revenues, Expenses, and Changes in Net Assets* described above.

### Financial Highlights and Analysis:

Consistent with its mission to provide open access to quality higher education, instruction is the primary function of the Graham County Community College District. Major funding sources supporting all functions include property taxes, state appropriations, government grants and contracts, and tuition and fees. The District exercises primary tax levy authority for generation of funds used for operations and capital equipment. The District continues to act in a financially conservative manner during the budgetary process, looking to maintain a secure financial future for the institution while bracing for reduced state support. Steady but modest growth is anticipated for the District's future financial position.

### Condensed Financial Information:

The condensed financial information below highlights the main categories of the *Statement of Net Assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Significant variances in assets and liabilities are discussed below. The result of these variances was a 1% increase in total net assets between fiscal years.

#### *Condensed Schedule of Changes in Net Assets As of June 30, 2012 and June 30, 2011*

	<u>2012</u>	<u>2011</u>	<u>% Change</u>
<b>Assets:</b>			
Current assets	\$ 44,464,536	\$ 42,858,107	4%
Noncurrent assets			
Capital assets, net	<u>38,256,159</u>	<u>38,798,367</u>	-1%
<b>Total assets</b>	<b><u>82,720,695</u></b>	<b><u>81,656,474</u></b>	1%
<b>Liabilities:</b>			
Current liabilities	1,983,363	1,906,161	4%
Noncurrent liabilities	<u>1,700,912</u>	<u>1,437,859</u>	18%
<b>Total liabilities</b>	<b><u>3,684,275</u></b>	<b><u>3,344,020</u></b>	10%
<b>Net Assets:</b>			
Invested in capital assets	38,256,159	38,798,367	-1%
Restricted net assets	1,895,019	1,614,013	17%
Unrestricted net assets	<u>38,885,242</u>	<u>37,900,074</u>	3%
<b>Total net assets</b>	<b><u>\$ 79,036,420</u></b>	<b><u>\$ 78,312,454</u></b>	1%

### Significant Changes in Assets:

In total, the District's current assets increased by \$1,606,429, or 4%, from the prior year. Current assets increased primarily due to the District spending less than the revenues received. Cash, the major component of current assets, increased by \$2,603,725 while accounts receivable decreased by \$993,191. Netted together these two changes account for most of the total change in current assets. Property taxes receivable decreased by \$522,563, which reflects an amount written off by Graham County due to legal action. This matter is further discussed on page 8. Government grants and contracts receivable decreased by \$423,701, which reflects an improved collection process from Gila County. The District continues to operate prudently while planning ahead for future capital expenditures.

### Significant Changes in Liabilities:

Total liabilities increased by \$340,255, or 10%. The compensated absences payable increased by \$331,622, or 16% over the prior year. This is attributed to an increase in the number of employees who are approaching retirement and that now meet the reporting threshold.

### Significant Changes in Net Assets:

Total net assets increased by \$723,966, or 1%, due to the fact that the Governing Board continues to direct management to accumulate resources for use in financing Master Facilities Plan projects.

The condensed financial information below highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Assets*. The District's operating revenues in relation to its operating expenses generates an operating loss at June 30, 2012. This loss is reflective of the fact that three main revenue sources, property taxes, state appropriations, and government grants are considered nonoperating revenues. For a description of the difference between operating and nonoperating revenues, please refer to the Summary of Significant Accounting Policies (Note 1). Significant variances in revenues and expenses are discussed after the following table.

***Condensed Schedule of Changes in Revenues, Expenses, and Net Assets  
For the Years Ended June 30, 2012 and 2011***

<b>Operating revenues:</b>	<b>2012</b>	<b>2011</b>	<b>% Change</b>
Tuition and fees	\$ 3,107,120	\$ 3,196,019	-3%
Government contracts	4,751,604	4,826,298	-2%
Other	1,130,163	1,122,550	1%
<b>Total operating revenues</b>	<b><u>8,988,887</u></b>	<b><u>9,144,867</u></b>	-2%
<b>Nonoperating revenues:</b>			
Property taxes	4,097,311	4,558,093	-10%
State appropriations	21,605,700	21,709,300	0%
Government grants	7,886,824	9,141,719	-14%
Other	513,994	480,864	7%
<b>Total nonoperating revenues</b>	<b><u>34,103,829</u></b>	<b><u>35,889,976</u></b>	-5%
<b>Total revenues</b>	<b><u>43,092,716</u></b>	<b><u>45,034,843</u></b>	-4%
<b>Operating expenses:</b>			
Instruction	17,656,478	17,244,472	2%
Academic support	875,285	757,516	16%
Student services	5,503,081	5,125,516	7%
Institutional support	5,688,500	5,480,467	4%
Operation and maintenance of plant	4,157,212	3,874,577	7%
Scholarships	4,016,130	4,713,562	-15%
Auxiliary enterprises	2,643,714	2,660,564	-1%
Depreciation	1,828,350	1,748,410	5%
<b>Total operating expenses</b>	<b><u>42,368,750</u></b>	<b><u>41,605,084</u></b>	2%
Income before other revenues, expenses, gains, or losses	<u>723,966</u>	<u>3,429,759</u>	-79%
 <b>Change in net assets</b>	 <b>723,966</b>	 <b>3,429,759</b>	 -79%
<b>Ending net assets</b>	<b><u>\$ 79,036,420</u></b>	<b><u>\$ 78,312,454</u></b>	1%

### Significant Changes in Revenues:

Reported tuition and fees revenue decreased by \$264,011, or just less than 4%. The tuition rate increased 5.3% from the previous year and student enrollment decreased 5.7% for the year (1.8% for Graham County and 3.9% for Gila County). The fact that Gila County students pay a 32% higher tuition rate coupled with a 18% enrollment decrease in Gila County, resulted in more of a revenue decrease than might be expected under these circumstances.

Revenue from the Gila County contract decreased by \$106,153, which helps understand the decrease in Government contracts of \$74,694, or 1.5%. Other operating revenues decreased by \$7,613, or 1%, primarily due to the decrease in student enrollment.

Property taxes decreased \$460,782, or 10%, because \$534,189 of previously reported receivables were written off during the year as the result of legal action between Graham County and Eurofresh. State appropriations decreased by \$103,600 or .5% from the previous year. Basic FTSE decreased \$1,983,900 while Equalization Aid increased \$1,880,300 according to formula. The net result was a minimal overall decrease in State Aid. Government grants decreased by \$1,254,895, or 14%, primarily due to a decrease in Pell grants used by students to pay tuition, food service and dormitory fees. Other nonoperating revenues increased by \$33,130, or 7%, mainly due to an increase in our share of state sales tax of \$36,692, or 8%. Interest income decreased by \$14,039 or 36%.

### Significant Changes in Expenses:

Operating expenses increased by \$763,668, or 2%. Salaries and benefits increased by \$1.5 million, or 5%, mostly due to an increase in the wage base. Scholarship expense decreased by \$697,432, or 15%, largely due to a decrease in Pell grants.

### Current Factors Having Probable Future Financial Significance:

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

In-state tuition will increase by 10% beginning in the fall of 2012. As stated in the District's Mission Statement, providing access to quality higher education requires that tuition and related costs remain affordable. Even with this increase, 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 Assets – Primary Government  
June 30, 2012**

	<b>Business-Type Activities</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 41,414,035
Receivables (net of allowance for uncollectibles):	
Property taxes	1,046,315
Government grants and contracts	1,595,511
Other	350,691
Inventories	57,984
<b>Total current assets</b>	<b>44,464,536</b>
Noncurrent assets:	
Capital assets, not being depreciated	7,028,523
Capital assets, being depreciated, net	31,227,636
<b>Total noncurrent assets</b>	<b>38,256,159</b>
<b>Total assets</b>	<b>82,720,695</b>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	253,034
Accrued payroll and employee benefits	945,017
Deposits held in custody for others	102,551
Deferred revenues	25,623
Current portion of compensated absences payable	657,138
<b>Total current liabilities</b>	<b>1,983,363</b>
Noncurrent liabilities:	
Compensated absences payable	1,700,912
<b>Total noncurrent liabilities</b>	<b>1,700,912</b>
<b>Total liabilities</b>	<b>3,684,275</b>
<b>Net Assets</b>	
Invested in capital assets	38,256,159
Restricted:	
Expendable for workforce development	1,895,019
Unrestricted	38,885,242
<b>Total net assets</b>	<b>\$ 79,036,420</b>

See accompanying notes to financial statements.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Financial Position – Component Unit  
June 30, 2012**

	<b>Eastern Arizona College Foundation</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 245,673
Investments	3,624,448
Property and equipment, net	94,303
Museum collection	221,075
<b>Total assets</b>	<b>4,185,499</b>
<b>Liabilities</b>	
Accounts payable	1,386
Accrued expenses	17,931
Liability under split-interest agreements	111,503
<b>Total liabilities</b>	<b>130,820</b>
<b>Net Assets</b>	
Unrestricted	2,249,846
Temporarily restricted	1,383,986
Permanently restricted	420,847
<b>Total net assets</b>	<b>4,054,679</b>
<b>Total Net Assets and Liabilities</b>	<b>\$ 4,185,499</b>

See accompanying notes to financial statements.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Revenues, Expenses, and Changes in Net Assets – Primary Government  
Year Ended June 30, 2012**

	<b>Business-Type Activities</b>
<b>Operating revenues:</b>	
Tuition and fees (net of scholarship allowances of \$3,659,011)	\$ 3,107,120
Government contracts	4,751,604
Private contracts	171,506
Food service income (net of scholarship allowances of \$532,004)	287,270
Dormitory rentals and fees (net of scholarship allowances of \$331,995)	325,560
Other	345,827
<b>Total operating revenues</b>	<b>8,988,887</b>
 <b>Operating expenses:</b>	
Educational and general:	
Instruction	17,656,478
Academic support	875,285
Student services	5,503,081
Institutional support	5,688,500
Operation and maintenance of plant	4,157,212
Scholarships	4,016,130
Auxiliary enterprises	2,643,714
Depreciation	1,828,350
<b>Total operating expenses</b>	<b>42,368,750</b>
<b>Operating loss</b>	<b>(33,379,863)</b>
 <b>Nonoperating revenues:</b>	
Property taxes	4,097,311
State appropriations	21,605,700
Government grants	7,886,824
Share of state sales taxes	470,087
Investment earnings	25,059
Gain on disposal of capital assets	18,848
<b>Total nonoperating revenues</b>	<b>34,103,829</b>
<b>Increase in net assets</b>	<b>723,966</b>
Total net assets, July 1, 2011	78,312,454
<b>Total net assets, June 30, 2012</b>	<b>\$ 79,036,420</b>

See accompanying notes to financial statements.

**Graham County Community College District  
(Eastern Arizona College)  
Statement of Activities – Component Unit  
Year Ended June 30, 2012**

	Eastern Arizona College Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Other Support</b>				
Foundation revenue	\$ 235,234	\$ -	\$ -	\$ 235,234
Contributions	12,561	193,408	250	206,219
Investment income	23,674	12,121	5,086	40,881
Net realized and unrealized gains (losses) on investments	1,016	3,732	754	5,502
Change in value of split-interest agreement	-	(1,386)	-	(1,386)
Net assets released from restrictions:				
Satisfaction of restrictions	217,543	(204,763)	(12,780)	-
<b>Total Revenue, Support, and Net Assets Released from Restrictions</b>	<b>490,028</b>	<b>3,112</b>	<b>(6,690)</b>	<b>486,450</b>
<b>Expenses</b>				
General and administrative	282,972	-		282,972
Scholarship awards	235,903	-		235,903
Fundraising	14,233	-		14,233
<b>Total Expenses</b>	<b>533,108</b>	<b>-</b>	<b>-</b>	<b>533,108</b>
<b>Change in net assets</b>	<b>(43,080)</b>	<b>3,112</b>	<b>(6,690)</b>	<b>(46,658)</b>
Net assets at July 1, 2011	2,292,926	1,380,874	427,537	4,101,337
<b>Net Assets at June 30, 2012</b>	<b>\$ 2,249,846</b>	<b>\$ 1,383,986</b>	<b>\$ 420,847</b>	<b>\$ 4,054,679</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, 2012**

	<b>Business-Type Activities</b>
<b>Cash flows from operating activities</b>	
Tuition and fees	\$ 3,107,120
Government contracts	5,162,808
Private contracts	171,506
Food service receipts	287,270
Dormitory rental and fees	325,560
Other receipts	398,416
Payments to suppliers and providers for goods and services	(11,432,665)
Payments for wages and benefits	(24,730,728)
Payments to students for scholarships	(4,016,130)
<b>Net cash used for operating activities</b>	<b>(30,726,843)</b>
<b>Cash flows from noncapital financing activities:</b>	
Property taxes	4,619,874
State appropriations	21,605,700
Government grants	7,886,824
Share of state sales taxes	470,087
Deposits held in custody for others received	(4,020)
<b>Net cash provided by noncapital financing activities</b>	<b>34,578,465</b>
<b>Cash flows from capital and related financing activities:</b>	
Proceeds from sale of capital assets	18,848
Purchase of capital assets	(1,286,141)
<b>Net cash used for capital and related financing activities</b>	<b>(1,267,293)</b>
<b>Cash flows from investing activities:</b>	
Interest received on investments	19,396
<b>Net cash provided by investing activities</b>	<b>19,396</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,603,725</b>
Cash and cash equivalents, July 1, 2011	38,810,310
<b>Cash and cash equivalents, June 30, 2012</b>	<b>\$ 41,414,035</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, 2012  
(Continued)**

<b>Reconciliation of operating loss to net cash used for operating activities:</b>	<b>Business-Type Activities</b>
Operating loss	<u>\$ (33,379,863)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,828,350
Changes in assets and liabilities:	
Increase in:	
Accrued payroll and employee benefits and compensated absences payable	379,128
Decrease in:	
Grants and contracts receivable	423,701
Other Receivables	52,589
Inventories	4,105
Deferred revenues	(12,497)
Accounts payable	(22,356)
<b>Net cash used for operating activities</b>	<u><u><b>\$ (30,726,843)</b></u></u>

See accompanying notes to financial statements.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2012**

**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 component unit, the Eastern Arizona College Foundation.

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

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board (FASB) statements for not-for-profit organizations. As such certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the 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, 2012, the Foundation distributed \$234,953 to the District for both restricted and unrestricted purposes, including administrative and program support and scholarships. In addition, the District paid the Foundation \$233,441 under a contract for services to develop, coordinate, manage, and administer fundraising and alumni involvement programs for the District. Complete financial statements for the Foundation can be obtained from the Eastern Arizona College Foundation, 3697 W. Church Street, Thatcher, Arizona, 85552.

**B. Basis of Presentation and Accounting**

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2012**

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

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

A statement of revenues, expenses, and changes in net assets provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions. Operating revenues and expenses generally result from exchange transactions such as providing instructional, public, and auxiliary services, which is consistent with the District's mission. Accordingly, revenues such as tuition, government contracts, food service, and dormitory charges are considered to be operating revenues. Other revenues, such as property taxes, state appropriations, and 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 in the year for which they are levied. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District eliminates all internal activity. It is the District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2012**

The District follows those FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The District has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

**C. Cash and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in U.S. Treasury bills 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, infrastructure, and construction in progress. Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received. Major outlays for assets or improvements to assets are capitalized as projects are constructed. These are categorized as construction in progress until completed, at which time they are reclassified to the appropriate asset category.

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

<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
Infrastructure	\$5,000	Straight-line	50-75 years

**F. Investment Earnings**

Investment earnings are composed of interest.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2012**

**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 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 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 assets.

**Note 2 – Deposits and Investments**

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

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2012**

**Deposits**—At June 30, 2012, the carrying amount of the District's deposits was \$1,237,989 and the bank balance was \$1,839,589. The District does not have a formal policy with respect to custodial credit risk of deposits. As of June 30, 2012, the cash in bank balance was fully insured by the FDIC.

**Investments**—At June 30, 2012, the fair value of the District's share of the State Treasurer's Local Government Investment Pool 7 was \$25,185,145. 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. In addition, the District owned one U.S. Treasury Bill with a book value of \$14,990,900 and a maturity value of \$15,000,000.

**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, 2012, the District's investment in the State Treasurer's Local Government Investment Pool 7 had a weighted average maturity of 29 days. At June 30, 2012, the District's investment in the U.S. Treasury Bill had a maturity of 68 days.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2012**

**Note 3 – Capital Assets**

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 6,801,382	\$ -	\$ -	\$ 6,801,382
Construction in progress	3,347	223,794	-	227,141
Total capital assets not being depreciated	6,804,729	223,794	-	7,028,523
Capital assets being depreciated:				
Buildings	44,527,660	78,934		44,606,594
Equipment	9,925,544	780,434	(108,082)	10,597,896
Improvements other than buildings	2,430,701	150,141		2,580,842
Library materials	850,993	52,839	(12,798)	891,034
Total capital assets being depreciated	57,734,898	1,062,348	(120,880)	58,676,366
Less accumulated depreciation for:				
Buildings	(16,944,405)	(1,026,884)		(17,971,289)
Equipment	(6,245,731)	(690,904)	108,082	(6,828,553)
Improvements other than buildings	(1,919,405)	(68,721)		(1,988,126)
Library materials	(631,719)	(41,841)	12,798	(660,762)
Total accumulated depreciation	(25,741,260)	(1,828,350)	120,880	(27,448,730)
Total capital assets being depreciated, net	31,993,638	(766,002)	-	31,227,636
Capital assets, net	\$ 38,798,367	\$ (542,208)	\$ -	\$ 38,256,159

The District has one major contractual commitment project at June 30, 2012, for the construction of the Eastern Arizona College Alumni Visitor Center. At June 30, 2012, the District had spent \$42,399 on the project and had remaining contractual commitments with contractors of \$497,601.

**Note 4 – Long-Term Liabilities**

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within one year
Compensated absences payable	\$2,026,427	\$955,509	\$623,886	\$2,358,050	\$657,138

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2012**

**Note 5 – Risk Management**

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

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

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

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

**Funding Policy**—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 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 10.74 percent (9.87 percent for retirement, 0.63

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2012**

percent for health insurance premium, 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
2012	\$1,540,456	\$91,712	\$37,307	\$1,669,475
2011	1,343,842	87,999	37,288	1,469,129
2010	1,225,911	97,015	58,797	1,381,723

**Note 7 – Operating Expenses**

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

Personal services	\$ 29,825,957
Contract services	2,094,535
Supplies and other services	2,786,365
Communications and utilities	1,398,266
Scholarships	4,016,130
Depreciation	1,828,350
Other	419,147
Total	<u>\$ 42,368,750</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

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2012**

accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

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

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

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

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2012**

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, 2012, were comprised of the following:

Equity mutual funds	\$ 69,036
Corporate bonds	17,515
Managed investment account	<u>3,537,897</u>
	<u>\$ 3,624,448</u>

**C. Museum Collection**

Collections, which consist entirely of the museum collection of Native American artifacts, are stated at appraised market value at date of acquisition. 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, 2012, totaled \$202,318, (consisting entirely of cash and cash equivalents, and marketable securities of \$133,282 and \$69,036, 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 (\$74,957 at June 30, 2012) is calculated using the trust rate of 9% and applicable mortality tables.

During fiscal 2009, the Foundation was the recipient of a gift annuity. Under the terms of the gift annuity the donor will be paid \$6,000 annually for the remainder of annuitant's natural life. At the end of the annuity the remaining assets are available for the Foundation's use. Assets held for the annuity are reported at fair value and at June 30, 2012, totaled \$96,121 (consisting entirely of cash, certificates of deposit, and marketable securities of \$5,988, \$72,618, and \$17,515, 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 (\$36,546 at June 30, 2012) is calculated using the trust rate of 6% and applicable mortality tables.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Financial Statements  
June 30, 2012**

**E. Endowments**

Changes in endowment net assets for the year ending June 30, 2012, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$1,670,628	\$1,186,640	\$427,537	\$3,284,805
Contributions		193,408	250	193,658
Investment income	20,020	12,121	5,086	37,227
Net gain (loss) on investments	693	3,731	754	5,178
Appropriated for expenditure	<u>(60,645)</u>	<u>(204,763)</u>	<u>(12,780)</u>	<u>(278,188)</u>
Endowment net assets, ending	<u>\$1,630,696</u>	<u>\$1,191,137</u>	<u>\$420,847</u>	<u>\$3,242,680</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, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Agriculture</b>			
Passed through the Department of Agriculture Forest Service			
National Forest Foundation	10.682	11-CS-11031202-018	7,417
Distance Learning and Telemedicine Loans and Grants	10.855	AZ 714-A16	\$ 9,950
Total U.S. Department of Agriculture			<u>17,367</u>
<b>U.S. Department of Labor</b>			
ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors			
	17.275		<u>102,473</u>
<b>National Science Foundation</b>			
Engineering Grants			
	47.041		<u>26,617</u>
<b>U.S. Small Business Administration</b>			
Passed through the Maricopa County Community College District			
Small Business Development Centers	59.037	SBAHQ-12-B-0046 1-603001-Z-0003-19	<u>90,266</u>
<b>U.S. Department of Education</b>			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		103,578
Federal Work-Study Program	84.033		231,260
Federal Pell Grant Program	84.063		6,264,133
Total Student Financial Assistance Cluster			<u>6,598,971</u>
Passed through the Arizona Department of Education			
Career and Technical Education—Basic Grants to States	84.048	11FCTDBG-170551-01A 12FCTDBG-270551-01A	225,785
Gaining Early Awareness and Readiness for Undergraduate Programs			
	84.334		<u>685,758</u>
Total U.S. Department of Education			<u>7,510,514</u>
Total Expenditures of Federal Awards			<u>\$ 7,747,237</u>

See accompanying notes to schedule.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT  
(EASTERN ARIZONA COLLEGE)  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012**

**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 2012 *Catalog of Federal Domestic Assistance*.

**Note 3 - Subrecipients**

The District did not pass through any federal awards to subrecipients.

**Graham County**  
**Community College District**  
(Eastern Arizona College)  
Single Audit Section  
June 30, 2012



**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, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 27, 2013. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Eastern Arizona College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. The financial statements of the Eastern Arizona College Foundation were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

**Internal Control over Financial Reporting**

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **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, the Governing Board, management, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport  
Auditor General

March 27, 2013



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 with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on  
Internal Control over Compliance in Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Governing Board of  
Graham County Community College District

### **Compliance**

We have audited 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, 2012. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Graham County Community College District complied, in all material respects, with the 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, 2012.

## Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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

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

Debbie Davenport  
Auditor General

March 27, 2013

Graham County Community College District  
(Eastern Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

**Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:		Unqualified
	<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:		Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	_____	_____ <u>X</u> _____

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
17.275	ARRA—Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:		\$300,000
	<b>Yes</b>	<b>No</b>
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> _____	_____

Graham County Community College District  
(Eastern Arizona College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

Financial Statement Findings

None reported.

Federal Award Findings and Questioned Costs

None reported.

Graham County Community College District  
(Eastern Arizona College)  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2012

Status of Federal Award Findings and Questioned Costs

CFDA No.: 17.275 **ARRA—Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors**  
84.116 **Fund for the Improvement of Postsecondary Education**

Finding No.: 11-101

Status: Fully Corrected