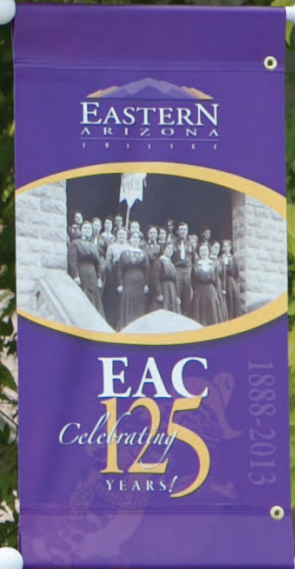


EASTERN
ARIZONA
COLLEGE

*Graham County
Community College District*



Annual Financial Report

June 30, 2013



Graham County
Community College District
(Eastern Arizona College)
Single Audit Reporting Package
June 30, 2013

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Single Audit Reporting Package
Year Ended June 30, 2013**

Table of Contents	Page
Financial Section	
Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Statement of Net Position—Primary Government	9
Statement of Financial Position—Component Unit	10
Statement of Revenues, Expenses, and Changes in Net Position—Primary Government	11
Statement of Activities—Component Unit	12
Statement of Cash Flows—Primary Government	13
Notes to Financial Statements	15
Supplementary Information	
Schedule of Expenditures of Federal Awards	27
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 <i>Government Auditing Standards</i>	30
Single Audit Section	
Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance	32
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results	34
Financial Statement Findings	35
Federal Award Findings and Questioned Costs	35

**Graham County
Community College District**
(Eastern Arizona College)
Financial Section
June 30, 2013



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, 2013, 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 opinion.

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, 2013, 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 26, 2014, 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 26, 2014



Management's Discussion and Analysis

This discussion and analysis provides an overview of the District's financial activities for the year ended June 30, 2013. 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, 2013. 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, 2013. 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, 2013. 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 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 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 1% decrease in total net position between fiscal years.

Condensed Schedule of Net Position As of June 30, 2013 and June 30, 2012

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Assets:			
Current assets	\$ 45,157,084	\$ 44,464,536	2%
Noncurrent assets			
Capital assets, net	<u>38,079,576</u>	<u>38,256,159</u>	0%
Total assets	<u>83,236,660</u>	<u>82,720,695</u>	1%
Liabilities:			
Current liabilities	3,084,778	1,983,363	56%
Non-current liabilities	<u>1,887,978</u>	<u>1,700,912</u>	11%
Total liabilities	<u>4,972,756</u>	<u>3,684,275</u>	35%
Net Position:			
Net investment in capital assets	38,079,576	38,256,159	0%
Restricted net position	2,059,454	1,895,019	9%
Unrestricted net position	<u>38,124,874</u>	<u>38,885,242</u>	-2%
Total net position	<u>\$ 78,263,904</u>	<u>\$ 79,036,420</u>	-1%

Significant Changes in Assets:

In total, the District's current assets increased by \$692,548, or 2%, 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 \$842,271 while accounts receivable decreased by \$163,588. Netted together these two changes account for most of the total change in current assets. Property taxes receivable decreased by \$359,628, which reflects an increase in collection of previously delinquent taxes. Government grants and contracts receivable increased by \$122,508, which reflects a change in the timing of revenue from Gila County. The District continues to operate prudently while planning ahead for future capital expenditures.

Significant Changes in Liabilities:

Total liabilities increased by \$1,288,481, or 35%. This is due primarily because the District began to operate a partially self-funded health insurance program. At June 30, 2013, \$1,025,025 was reserved to pay future health insurance claims (see additional information in Note 5). Accounts payable increased by \$315,979, or 125%. This increase is mainly due to multiple repair projects in process at year end to 'spruce up' campus for the 125 year celebration planned for the fall. Compensated absences payable increased by \$194,273 and this is attributed to an increase in base wages and employees 'banking' more vacation days.

Significant Changes in Net Position:

Total net position decreased by \$772,516, or 1%, mainly due liabilities increasing more than assets. See explanations 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, 2013. 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, 2013 and 2012***

Operating revenues:	<u>2013</u>	<u>2012*</u>	<u>% Change</u>
Tuition and fees	\$ 3,453,406	\$ 3,107,120	11%
Government contracts	5,469,037	4,751,604	15%
Other	1,318,242	1,130,163	17%
Total operating revenues	<u>10,240,685</u>	<u>8,988,887</u>	14%
Nonoperating revenues:			
Property taxes	5,127,414	4,097,311	25%
State appropriations	19,240,500	21,605,700	-11%
Government grants	6,438,971	7,886,824	-18%
Other	543,136	513,994	6%
Total nonoperating revenues	<u>31,350,021</u>	<u>34,103,829</u>	-8%
Total revenues	<u>41,590,706</u>	<u>43,092,716</u>	-3%
Operating expenses:			
Instruction	16,681,528	16,741,103	0%
Academic support	748,250	844,435	-11%
Student services	5,369,782	5,228,983	3%
Institutional support	7,639,400	7,157,546	7%
Operation and maintenance of plant	4,098,517	3,908,489	5%
Scholarships	2,996,833	4,016,130	-25%
Auxiliary enterprises	2,918,447	2,643,714	10%
Depreciation	1,910,465	1,828,350	4%
Total operating expenses	<u>42,363,222</u>	<u>42,368,750</u>	0%
Income before other revenues, expenses, gains, or losses	<u>(772,516)</u>	<u>723,966</u>	-207%
Change in net position	<u>(772,516)</u>	<u>723,966</u>	-207%
Beginning net position	<u>79,036,420</u>	<u>78,312,454</u>	
Ending net position	<u>\$ 78,263,904</u>	<u>\$ 79,036,420</u>	-1%

* The FY 2012 operating expenses were restated to correct an error in the allocation of expenses related to the change in compensated absences. This restatement had no effect on net position.

Significant Changes in Revenues:

Operating revenues increased \$1,251,798, or 14%. Government contracts accounted for \$717,433 of this increase, \$512,319 from the Gila County Provisional College contract. Reported tuition and fees revenue increased by \$346,286, or 11%. The tuition rate increased 10% from the previous year and student enrollment decreased 10%. Less tuition was paid with Pell Grants, which results in an increase in reported tuition revenue.

Non-operating revenues decreased \$2,753,808, or 8%. Property tax revenues increased \$1,030,103, or 25%, because of a significant write down of tax revenues in the previous year (see comment regarding Eurofresh from last year's analysis). State appropriations decreased by \$2,365,200 or 11% from the previous year. Basic FTSE increased \$113,200, or 5% and Equalization Aid decreased \$2,478,400, or 13% according to formula. The net result was a significant overall decrease in State Aid. Government grants decreased by \$1,447,853, or 18%, primarily due to a decrease of \$1,413,792 in Pell grants awarded to students as a result of the decrease in the number of full time students. Other nonoperating revenues increased by \$29,142, or 6%, due to an increase in our share of state sales tax of \$17,494, or 4%, and an increase in interest income of \$19,144 or 76%.

Significant Changes in Expenses:

Operating expenses decreased by \$5,528, or 0%. Due to the decrease in overall revenues, operating expenses have been held to previous levels.

Capital Assets Administration

As of June 30, 2013, the District's capital assets, net of accumulated depreciation, totaled \$38.1 million, a decrease of \$176,583 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 economic recovery and the conflicting attitudes within the Arizona State Legislature with regard to higher education create an uncertain outlook for future revenues.

In-state tuition increased 9% beginning in the fall of 2013. 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 Position – Primary Government
June 30, 2013**

	Business-Type Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 42,256,306
Receivables (net of allowance for uncollectibles):	
Property taxes	686,687
Government grants and contracts	1,718,019
Other	424,223
Inventories	71,849
Total current assets	45,157,084
Noncurrent assets:	
Capital assets, not being depreciated	6,812,421
Capital assets, being depreciated, net	31,267,155
Total noncurrent assets	38,079,576
Total assets	83,236,660
Liabilities	
Current liabilities:	
Accounts payable	569,013
Accrued payroll and employee benefits	631,028
Insurance claims payable	1,025,025
Deposits held in custody for others	139,222
Deferred revenues	56,145
Current portion of compensated absences payable	664,345
Total current liabilities	3,084,778
Noncurrent liabilities:	
Compensated absences payable	1,887,978
Total noncurrent liabilities	1,887,978
Total liabilities	4,972,756
Net Position	
Net investment in capital assets	38,079,576
Restricted:	
Expendable for workforce development	2,059,454
Unrestricted	38,124,874
Total net position	\$ 78,263,904

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Financial Position – Component Unit
June 30, 2013**

	Eastern Arizona College Foundation
Assets	
Cash and cash equivalents	\$ 312,031
Investments	3,855,972
Property and equipment, net	93,898
Museum collection	221,075
Total assets	4,482,976
 Liabilities	
Accounts payable	5,861
Accrued expenses	19,044
Liability under split-interest agreements	87,845
Total liabilities	112,750
 Net Assets	
Unrestricted	2,382,323
Temporarily restricted	1,541,348
Permanently restricted	446,555
Total net assets	4,370,226
Total Net Assets and Liabilities	\$ 4,482,976

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, 2013**

	Business-Type Activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of \$3,430,246)	\$ 3,453,406
Government contracts	5,469,037
Private contracts	25,000
Food service income (net of scholarship allowances of \$533,834)	305,705
Dormitory rentals and fees (net of scholarship allowances of \$303,686)	393,148
Other	594,389
Total operating revenues	10,240,685
Operating expenses:	
Educational and general:	
Instruction	16,681,528
Academic support	748,250
Student services	5,369,782
Institutional support	7,639,400
Operation and maintenance of plant	4,098,517
Scholarships	2,996,833
Auxiliary enterprises	2,918,447
Depreciation	1,910,465
Total operating expenses	42,363,222
Operating loss	(32,122,537)
Nonoperating revenues:	
Property taxes	5,127,414
State appropriations	19,240,500
Government grants	6,438,971
Share of state sales taxes	487,581
Investment earnings	44,203
Gain on disposal of capital assets	11,352
Total nonoperating revenues	31,350,021
Decrease in net position	(772,516)
Total net position, July 1, 2012	79,036,420
Total net position, June 30, 2013	\$ 78,263,904

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Activities – Component Unit
Year Ended June 30, 2013**

	Eastern Arizona College Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Foundation revenue	\$ 266,767	\$ -	\$ -	\$ 266,767
Contributions	16,686	172,865	750	190,301
Investment income	168,352	17,798	7,188	193,338
Net realized and unrealized gains (losses) on investments	24,913	85,204	34,380	144,497
Change in value of split-interest agreement	-	8,975	-	8,975
Net assets released from restrictions:				
Satisfaction of restrictions	144,090	(127,480)	(16,610)	-
Total Revenue, Support, and Net Assets Released from Restrictions	620,808	157,362	25,708	803,878
Expenses				
General and administrative	302,171	-		302,171
Scholarship awards	161,719	-		161,719
Fundraising	24,441	-		24,441
Total Expenses	488,331	-	-	488,331
Change in net assets	132,477	157,362	25,708	315,547
Net assets at July 1, 2012	2,249,846	1,383,986	420,847	4,054,679
Net Assets at June 30, 2013	\$ 2,382,323	\$ 1,541,348	\$ 446,555	\$ 4,370,226

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows – Primary Government
Year Ended June 30, 2013**

	Business-Type Activities
Cash flows from operating activities	
Tuition and fees	\$ 3,415,393
Government contracts	5,580,133
Private contracts	25,000
Food service receipts	305,705
Dormitory rental and fees	393,148
Other receipts	553,208
Payments to suppliers and providers for goods and services	(11,508,420)
Payments for wages and benefits	(24,743,428)
Payments to students for scholarships	(2,993,486)
Net cash used for operating activities	(28,972,747)
Cash flows from noncapital financing activities:	
Property taxes	5,487,042
State appropriations	19,240,500
Government grants	6,235,889
Share of state sales taxes	487,581
Deposits held in custody for others received	36,671
Net cash provided by noncapital financing activities	31,487,683
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	16,163
Payments made to contractors	(7,692)
Purchase of capital assets	(1,731,001)
Net cash used for capital and related financing activities	(1,722,530)
Cash flows from investing activities:	
Interest received on investments	49,865
Net cash provided by investing activities	49,865
Net increase in cash and cash equivalents	842,271
Cash and cash equivalents, July 1, 2012	41,414,035
Cash and cash equivalents, June 30, 2013	\$ 42,256,306
	(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, 2013
(Continued)**

Reconciliation of operating loss to net cash used for operating activities:	Business-Type Activities
Operating loss	<u>\$ (32,122,537)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,910,465
Changes in assets and liabilities:	
Increase in:	
Accounts payable	315,979
Insurance claims payable	1,025,025
Compensated absences payable	194,273
Inventories	(13,865)
Other receivables	(79,194)
Decrease in:	-
Government grants and contracts receivable	111,096
Accrued employee benefits payable	(313,989)
Net cash used for operating activities	<u><u>\$ (28,972,747)</u></u>

See accompanying notes to financial statements.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2013**

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, 2013, the Foundation distributed \$173,318 to the District for both restricted and unrestricted purposes, including administrative and program support and scholarships. In addition, the District paid the Foundation \$241,426 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.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2013**

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 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 position is available.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2013**

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:

Asset Category	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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.

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

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2013**

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 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, 2013, the carrying amount of the District's deposits was \$335,451 and the bank balance was \$650,994. The District does not have a formal policy with respect to custodial credit risk of deposits. As of June 30, 2013, the bank balance was covered by federal depository insurance or by collateral held by the depository bank in the District's name except for \$84,143, which was uninsured and uncollateralized.

Investments—At June 30, 2013, the fair value of the District's share of the State Treasurer's Local Government Investment Pool 7 was \$41,920,855. The State Board of Investment provides oversight for the State Treasurer's pool. The fair value of a

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2013**

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.

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, 2013, 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, 2013, was as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 6,801,382	\$ -	\$ -	\$ 6,801,382
Construction in progress	227,141	7,692	(223,794)	11,039
Total capital assets not being depreciated	7,028,523	7,692	(223,794)	6,812,421
Capital assets being depreciated:				
Buildings	44,606,594	874,887	(7,200)	45,474,281
Equipment	10,597,896	1,019,355	(114,823)	11,502,428
Improvements other than buildings	2,580,842	-	-	2,580,842
Library materials	891,034	60,553	(17,497)	934,090
Total capital assets being depreciated	58,676,366	1,954,795	(139,520)	60,491,641
Less accumulated depreciation for:				
Buildings	(17,971,289)	(1,013,058)	4,560	(18,979,787)
Equipment	(6,828,553)	(782,323)	112,652	(7,498,224)
Improvements other than buildings	(1,988,126)	(70,593)	-	(2,058,719)
Library materials	(660,762)	(44,491)	17,497	(687,756)
Total accumulated depreciation	(27,448,730)	(1,910,465)	134,709	(29,224,486)
Total capital assets being depreciated, net	31,227,636	44,330	(4,811)	31,267,155
Capital assets, net	\$ 38,256,159	\$ 52,022	\$ (228,605)	\$ 38,079,576

The District has no major active construction projects and no contractual commitments at June 30, 2013.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2013**

Note 4 – Long-Term Liabilities

The following schedule details the District’s long-term liability and obligation activity for the year ended June 30, 2013:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Due within one year</u>
Compensated absences payable	\$2,358,050	\$1,045,001	\$850,728	\$2,552,323	\$664,345

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.

Beginning July 1, 2012, 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 \$1,025,025 at June 30, 2013, includes the amount payable for health benefits. It is the estimated cost of settling claims that have been reported but not settled and claims that have been incurred but not reported and is based on a range of three to six months of historical average costs over the last year. The District’s medical benefits for the fiscal year ended June 30, 2013, are as follows:

<u>Medical benefits:</u>	<u>2013</u>
Claims payable, beginning of year	\$ 0
Current year actual and estimated claims	3,550,423
Less: Claims payments	<u>2,525,398</u>
Claims payable, end of year	<u>\$1,025,025</u>

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2013**

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, 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, 2013, active plan members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.90 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 11.14 percent (10.25 percent for retirement, 0.65 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
2013	\$1,640,026	\$104,002	\$38,401	\$1,782,429
2012	1,540,456	91,712	37,307	1,669,475
2011	1,343,842	87,999	37,288	1,469,129

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:

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2013**

Personal services	\$ 28,395,333
Contract services	2,452,482
Supplies and other services	2,895,206
Communications and utilities	1,344,963
Scholarships	2,996,833
Depreciation	1,910,465
Other	<u>2,367,940</u>
Total	<u>\$ 42,363,222</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 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

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2013**

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, 2013, were comprised of the following:

Equity mutual funds	\$ 36,188
Corporate bonds	17,523
Managed investment account	3,802,261
	<u>\$ 3,855,972</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.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2013**

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, 2013, totaled \$192,130, (consisting entirely of cash and cash equivalents, and marketable securities of \$11,867 and \$180,263, 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 (\$57,721 at June 30, 2013) 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, 2013, totaled \$91,626 (consisting entirely of cash, certificates of deposit, and marketable securities of \$3,775, \$70,328, and \$17,523, 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 (\$30,124 at June 30, 2013) is calculated using the trust rate of 6% and applicable mortality tables.

E. Endowments

Changes in endowment net assets for the year ending June 30, 2013, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	\$1,630,696	\$1,191,137	\$420,847	\$3,242,680
Contributions		172,865	750	173,615
Investment income	28,297	17,798	7,188	53,283
Net gain (loss) on investments	134,833	85,204	34,380	254,417
Appropriated for expenditure	<u>(56,625)</u>	<u>(127,480)</u>	<u>(16,610)</u>	<u>(200,715)</u>
Endowment net assets, ending	<u>\$1,737,201</u>	<u>\$1,339,524</u>	<u>\$446,555</u>	<u>\$3,523,280</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.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2013**

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, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of the Interior			
Fish, Wildlife and Plant Conservation Resource Management	15.231		<u>58,329</u>
U.S. Department of Labor			
ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275		<u>2,504</u>
National Science Foundation			
Engineering Grants	47.041		<u>16,250</u>
U.S. Small Business Administration			
Passed through the Maricopa County Community College District			
Small Business Development Centers	59.037	SBAHQ-12-B-0046 SBAHQ-13-B-0061	<u>88,115</u>
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		103,578
Federal Work-Study Program	84.033		231,260
Federal Pell Grant Program	84.063		4,850,341
Total Student Financial Assistance Cluster			<u>5,185,179</u>
Passed through the Arizona Department of Education			
Career and Technical Education—Basic Grants to States	84.048	12FCTDBG-270551-01A 13FCTDBG-370551-01A	231,495
Gaining Early Awareness and Readiness for Undergraduate Programs			
Total U.S. Department of Education	84.334		<u>740,949</u>
			<u>6,157,623</u>
Total Expenditures of Federal Awards			<u>\$ 6,322,821</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, 2013**

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 2013 *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, 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 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, 2013, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 26, 2014. 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 compliance 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 26, 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, 2013. 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, 2013.

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.

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 26, 2014

Graham County Community College District
(Eastern Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unmodified	
	Yes	No	
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
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs

Dollar threshold used to distinguish between Type A and Type B programs:		\$300,000	
	Yes	No	
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, 2013

Financial Statement Findings

None reported.

Federal Award Findings and Questioned Costs

None reported.