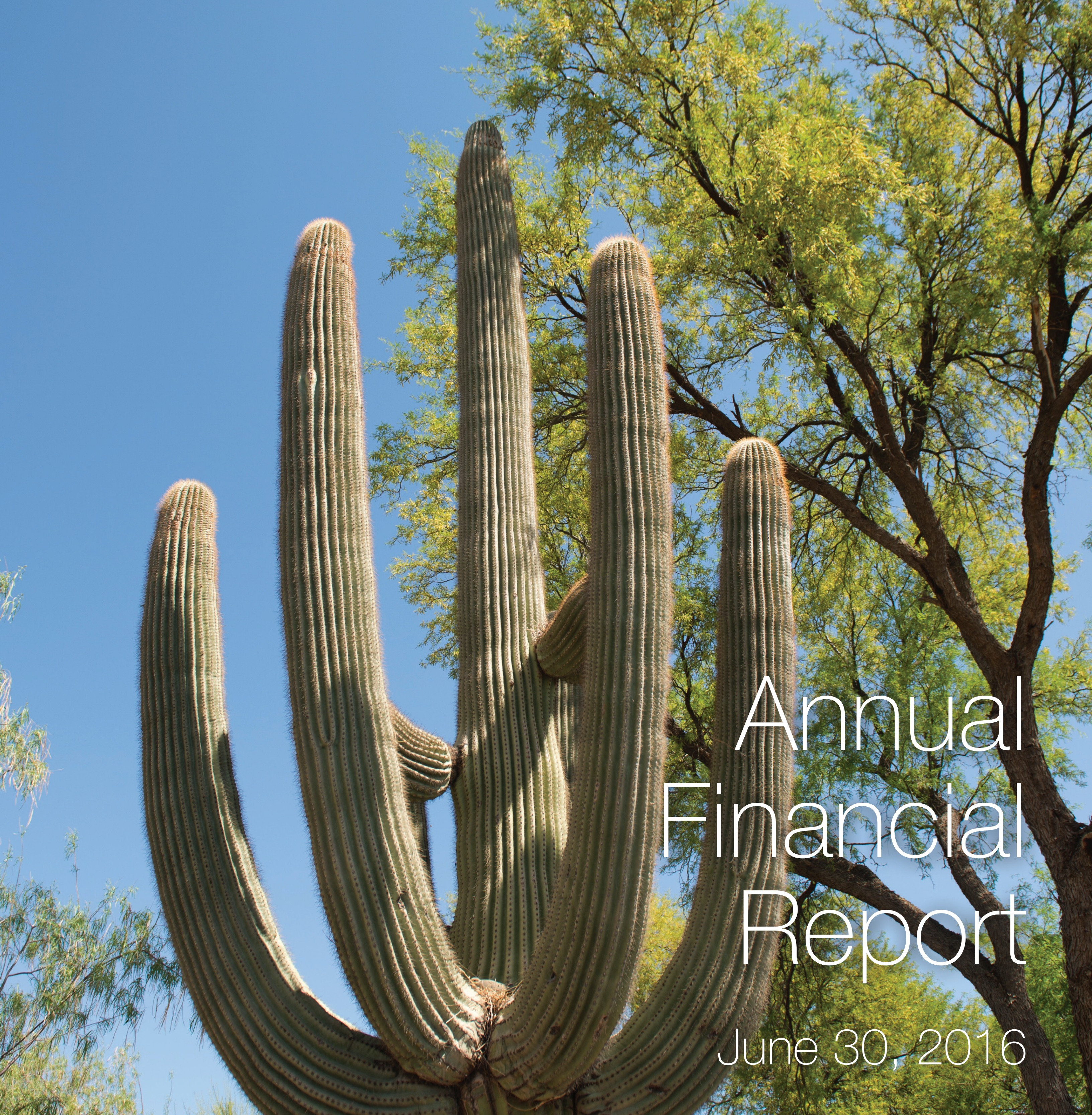
Eastern Arizona College

Graham County Community College District



Annual Financial Report

June 30, 2016

Graham County
Community College District
(Eastern Arizona College)
Single Audit Reporting Package
June 30, 2016

Graham County Community College District
(Eastern Arizona College)
Single audit reporting package
Year ended June 30, 2016

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Community College District
(Eastern Arizona College)
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June 30, 2016

STATE OF ARIZONA

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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, 2016, 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 other auditors' report. 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 other auditors did not audit the discretely presented component unit's financial statements in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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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, 2016, 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 5 through 9, schedule of the District's proportionate share of the net pension liability on page 31, and schedule of district pension contributions on page 32 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 management's responsibility 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 30, 2017, 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 30, 2017

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Management's Discussion and Analysis

This discussion and analysis provides an overview of the District's financial activities for the year ended June 30, 2016. 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 U.S. 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, 2016. It shows the various assets that are owned by the District, deferred outflows of resources, liabilities, deferred inflows of resources, and the various categories of net position. Net position is an accounting concept defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, 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, 2016. 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, 2016. 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 an operating loss on the *Statement of Revenues, Expenses, and Changes in Net Position* described above.

Financial Highlights and Analysis:

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

Condensed Financial Information:

The condensed financial information on the following page 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 on the following page.

Condensed Schedule of Net Position
As of June 30, 2016 and June 30, 2015

		2016		2015	% Change
Assets:					
Current assets	$	34,536,405	$	38,785,297	-11%
Noncurrent assets					
Capital assets, net		37,661,059		37,641,202	0%
Total assets		72,197,464		76,426,499	-6%
Deferred Outflows of Resources		3,129,682		3,876,227	-19%
Liabilities:					
Other liabilities		4,367,013		4,228,934	3%
Long-term liabilities		33,427,940		32,326,850	3%
Total liabilities		37,794,953		36,555,784	3%
Deferred Inflows of Resources		2,757,065		5,276,185	-48%
Net Position:					
Net investment in capital assets		37,661,059		37,641,202	0%
Restricted net position		1,823,807		2,363,613	-23%
Unrestricted net position		(4,709,738)		(1,534,058)	207%
Total net position	$	34,775,128	$	38,470,757	-10%

Financial Highlights and Analysis

Statement of Net Position:

The total net position for Graham County Community College District decreased by $3,695,629, or 10%, from the prior fiscal year due to the District's expenses exceeding revenues. As a result, the District's total assets decreased by $4,229,035, or 6%, and total liabilities increased by $1,239,169, or 3%. The decrease to net position was also affected by a decrease in deferred outflows, as well as a decrease in deferred inflows of resources, as discussed below.

The District's current assets decreased by $4,248,892, or 11%, from the prior year. This decline was due to a cash and investment reduction of $5,261,226, or 14%, following the trend of the prior two years where cash and investments decreased 9% in 2015 and 5% in 2014. The decline in cash and investments was partially due to an increase in receivables of $1,050,491, a decrease in both accounts payable of $178,895 and compensated absences payable of $275,506. While the strategic cash position of the District is healthy, and has allowed it to cope with these reductions in cash, there is an acknowledgement of a need to find ways to increase revenues and reduce expenses to break this trend.

The majority of the increase in receivables as discussed above is attributed to an increase in government grants and contracts receivables of $888,709, a 51% increase. Most of this increase was due to the Trade Adjustment Assistance Community College and Career Training (TAACCCT) grant construction expenses for the ITE building renovation (Fab Lab), as well as the new GEAR-UP grant, which together accounted for $507,043 of the increase in receivables. Another $127,767 was due to an increase in Pell Receivables, $69,025 was attributed to an increase of the Gila County Provisional District contract, $48,604 was due to receivables for the Small Business Development Center, and $34,138 to an increase in Federal Work Study receivables. The remaining receivables increase of $102,132 was due to receivable changes in various other grants and contracts.

Deferred outflows of resources decreased by $746,545, or 19%, and the change is a result of the updated valuation report issued by the Arizona Retirement System (ASRS). This amount is comprised of contributions related to the (ASRS) that have not yet been recognized as expenses, the difference between expected and actual pension experience, and amortization calculations of the deferred outflows.

As previously mentioned, total liabilities increased by 3%, which is also the amount that both other liabilities and long-term liabilities increased. The increase of 3% in other liabilities, or $138,079, is attributed to increasing employee benefits of $201,472, an increase of deposits held in custody of $29,734, and an increase in unrecognized grant proceeds of $85,768. This increase was offset by a reduction of accounts payable of $178,895 as mentioned above. The 3% increase in long-term liabilities amounted to a $1,101,090 increase. Within this category, compensated absences payable decreased by $377,692 (a trend that is expected to continue in the near future as an aging workforce retires), while the institution's net pension liability with ASRS increased by $1,478,782 or 5%.

Deferred inflows of resources decreased by $2,519,120. This 48% decrease is a result of the updated projections in actuarial estimates, as well as the difference between expected and actual experience of ASRS pension plan investments as of June 30, 2016.

More details on assets, deferred outflows of resources, liabilities, and deferred inflows of resources can be found on the *Statement of Net Position*, as well as accompanying notes.

The condensed financial information on the following page highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Position*.

Condensed Schedule of Changes in Revenues, Expenses, and Net Position
For the Years Ended June 30, 2016 and 2015

Operating revenues:	2016	2015	% Change
Tuition and fees, net of scholarship allowances	$ 2,901,968	$ 2,931,876	-1%
Government contracts	5,778,981	5,289,353	9%
Other	789,823	934,177	-15%
Total operating revenues	9,470,772	9,155,406	3%
Nonoperating revenues:			
Property taxes	5,853,935	5,537,322	6%
State appropriations	17,283,900	17,927,300	-4%
Government grants	7,193,856	6,661,776	8%
Other	650,959	631,822	3%
Total nonoperating revenues	30,982,650	30,758,220	1%
Total revenues	40,453,422	39,913,626	1%
Operating expenses:			
Instruction	17,093,332	17,140,975	0%
Academic support	774,371	806,106	-4%
Student services	6,249,844	5,698,507	10%
Institutional support	8,290,798	8,873,853	-7%
Operation and maintenance of plant	4,065,042	4,178,491	-3%
Scholarships	2,917,072	2,984,691	-2%
Auxiliary enterprises	2,552,861	2,714,370	-6%
Depreciation	2,205,731	2,074,799	6%
Total operating expenses	44,149,051	44,471,792	-1%
Decrease in net position	(3,695,629)	(4,558,166)	-19%
Net position, beginning of year	38,470,757	43,028,923	-11%
Net position, end of year	$ 34,775,128	$ 38,470,757	-10%

Statement of Revenues, Expenses, and Changes in Net Position

Total revenue for the District increased by slightly by 1%, or $539,796. Operating revenues were up 3%, or $315,366, due entirely to an increase of government contracts of $489,628. This increase was mainly comprised of a $465,974 in contract revenues with Gila County Provisional District. This increase was offset by a decrease in other revenues of $144,354 and a slight decrease in tuition of $29,908.

Though there were changes in nonoperating revenues, in total they remained virtually level year over year with a very slight increase of 1%, or $224,430. The changes to the nonoperating revenues were a result of the following:

- Property taxes increased by $316,613, or 6%. While the assessed valuation decreased by 4%, it was offset by an 8% increase in the tax rate.
- State appropriations decreased again, this year by $643,400, or 4%. This overall reduction of state appropriations offset the increases of the other nonoperating revenues.
- Government grants increased $532,080 attributed mostly to the aforementioned TAACCCT grant, with additional funding of $523,894 due to the construction and renovation of the ITE building (Fab Lab).

Overall, operating expenses decreased slightly by 1%, or $322,741. Aside from depreciation and student services, all other areas experienced decreases as a result of reductions of budgeted capital expenditures and personnel. Student Services expenses increased $551,337, or 10%, as a result of the new GEAR-UP grant. These grant expenses accounted for $481,682 of these increased expenses and where entirely covered by proceeds from the grant.

Overall, operating expenses were kept relatively level in consideration of decreased state funding and static revenues.

Capital Assets Administration

As of June 30, 2016, the District's capital assets, net of accumulated depreciation, totaled $37.7 million, an increase of $19,857, remaining essentially unchanged from the prior year. However, during the 2016 fiscal year, the District began construction on the ITE Building Renovation (Fab Lab) which was finished in the 2017 fiscal year for a total cost of approximately $2 million. Approximately $943 thousand of this amount was being carried as construction in progress at the end of fiscal year 2016. Capital assets include land, equipment, buildings, improvements other than buildings, library books, infrastructure, 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

State aid to community colleges has been reduced every year for the last several years. This trend of declining aid does not appear to be ending anytime in the foreseeable future. In addition, since fiscal year 2011, total revenues for the District have decreased by 10%, largely due to the aforementioned decrease in state appropriations, while total operating expenses have increased 6.1% over the same period. The institution continues to analyze expenses and reduce budgets where possible, while also endeavoring to maintain the quality higher education and service our students and customers have come to expect from the college.

In addition to reducing expenses, and in line with the trends of other institutions in the state, the District increased tuition by 4% in fiscal years 2015 and 2016. This was followed by a new tuition structure in 2017 that changed from a back loaded framework to a sliding tuition scale. This current new structure will precede another proposed increase of $5 per credit hour, or 6%, for the 2018 fiscal year. Despite these increases, the District's tuition level will still be among the lowest in the state, while still providing a valuable higher education to its students. As stated in the District's Mission Statement, providing access to quality higher education requires that tuition and related costs remain affordable.

Graham County Community College District
(Eastern Arizona College)
Statement of Net Position – Primary Government
June 30, 2016

		Business-Type Activities
Assets		
Current assets:		
Cash and cash equivalents	$	31,170,635
Receivables (net of allowance for uncollectibles):		
Property taxes		354,502
Government grants and contracts		2,624,881
Other		365,627
Inventories		20,760
Total current assets		34,536,405
Noncurrent assets:		
Capital assets, not being depreciated		8,718,091
Capital assets, being depreciated, net		28,942,968
Total noncurrent assets		37,661,059
Total assets		72,197,464
Deferred Outflows of Resources		
Deferred outflows related to pensions		3,129,682
Total deferred outflows of resources		3,129,682
Liabilities		
Current liabilities:		
Accounts payable		311,849
Accrued payroll and employee benefits		815,121
Insurance claims payable		1,937,187
Deposits held in custody for others		210,873
Unearned revenues		125,916
Current portion of compensated absences payable		966,067
Total current liabilities		4,367,013
Noncurrent liabilities:		
Compensated absences payable		1,776,966
Net pension liability		31,650,974
Total noncurrent liabilities		33,427,940
Total liabilities		37,794,953
Deferred Inflows of Resources		
Deferred inflows related to pensions		2,757,065
Total deferred inflows of resources		2,757,065
Net Position		
Net investment in capital assets		37,661,059
Restricted:		
Expendable for workforce development		1,823,807
Unrestricted		(4,709,738)
Total net position	$	34,775,128

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Financial Position—Component Unit
June 30, 2016

		Eastern Arizona College Foundation
Assets		
Cash and cash equivalents	$	123,678
Investments		5,322,948
Property and equipment, net		822,163
Museum collection		221,075
Total assets		6,489,864
Liabilities		
Accounts payable		1,641
Accrued expenses		21,185
Liability under split-interest agreements		73,877
Total liabilities		96,703
Net Assets		
Unrestricted		2,448,503
Temporarily restricted		3,284,439
Permanently restricted		660,219
Total net assets		6,393,161
Total net assets and liabilities	$	6,489,864

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, 2016

		Business-Type Activities
Operating revenues:		
Tuition and fees (net of scholarship allowances of $4,122,890)	$	2,901,968
Government contracts		5,778,981
Private contracts		5,015
Food service income (net of scholarship allowances of $645,432)		267,603
Dormitory rentals and fees (net of scholarship allowances of $384,376)		282,906
Other		234,299
Total operating revenues		9,470,772
Operating expenses:		
Educational and general:		
Instruction		17,093,332
Academic support		774,371
Student services		6,249,844
Institutional support		8,290,798
Operation and maintenance of plant		4,065,042
Scholarships		2,917,072
Auxiliary enterprises		2,552,861
Depreciation		2,205,731
Total operating expenses		44,149,051
Operating loss		(34,678,279)
Nonoperating revenues:		
Property taxes		5,853,935
State appropriations		17,283,900
Government grants		7,193,856
Share of state sales taxes		558,882
Investment earnings		74,308
Gain on disposal of capital assets		17,769
Total nonoperating revenues		30,982,650
Decrease in net position		(3,695,629)
Net position, July 1, 2015		38,470,757
Net position, June 30, 2016	$	34,775,128

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Activities—Component Unit
Year Ended June 30, 2016

	Eastern Arizona College Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Foundation revenue	$ 260,445	$ -	$ -	$ 260,445
Contributions	14,693	1,719,527	1,000	1,735,220
Investment income	29,870	34,802	-	64,672
Net realized and unrealized gains on investments	(19,289)	(4,088)	-	(23,377)
Change in value of split-interest agreement	-	(96,795)	-	(96,795)
Net assets released from restrictions:				
Satisfaction of restrictions	330,301	(330,301)	-	
Total Revenue, Support, and Net Assets Released from Restrictions	616,020	1,323,145	1,000	1,940,165
Expenses				
General and administrative	337,810	-	-	337,810
Scholarship awards	376,252	-	-	376,252
Fundraising	23,621	-	-	23,621
Total Expenses	737,683	-	-	737,683
Change in net assets	(121,663)	1,323,145	1,000	1,202,482
Net assets at July 1, 2015	2,570,166	1,961,294	659,219	5,190,679
Net assets at June 30, 2016	$ 2,448,503	$ 3,284,439	$ 660,219	$ 6,393,161

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2016

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	$ 2,901,968
Government contracts	4,095,896
Private contracts	5,015
Food service receipts	267,603
Dormitory rentals and fees	282,906
Other receipts	88,151
Payments to suppliers and providers of goods and services	(8,942,070)
Payments for employee wages and benefits	(30,701,276)
Payments to students for scholarships	(2,910,725)
Net cash used for operating activities	(34,912,532)
Cash flows from noncapital financing activities:	
Property taxes	5,838,301
State appropriations	17,283,900
Government grants	8,074,000
Share of state sales taxes	558,882
Deposits held in custody for others received	252,204
Deposits held in custody for others disbursed	(222,470)
Net cash provided by noncapital financing activities	31,784,817
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	18,744
Payments made to contractors	(1,193,150)
Purchases of capital assets	(1,033,413)
Net cash used for capital and related financing activities	(2,207,819)
Cash flows from investing activities:	
Interest received on investments	74,308
Net cash provided by investing activities	74,308
Net decrease in cash and cash equivalents	(5,261,226)
Cash and cash equivalents, July 1, 2015	36,431,861
Cash and cash equivalents, June 30, 2016	$ 31,170,635
	(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, 2016
(Continued)

Reconciliation of operating loss to net cash used for operating activities:	Business-Type Activities
Operating loss	$ (34,678,279)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	2,205,731
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Net pension liability	1,478,782
Deferred outflows of resources related to pensions	746,545
Deferred inflows of resources related to pensions	(2,519,120)
Accounts payable	(178,895)
Government grants and contracts receivable	(1,683,085)
Other receivables	(146,148)
Compensated absences payable	(275,506)
Insurance claims payable	43,378
Inventories	38,157
Accrued payroll and employee benefits	55,908
Net cash used for operating activities	$ (34,912,532)

See accompanying notes to financial statements.

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

The Eastern Arizona College 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, 2016, the Foundation distributed $316,990 to the District for both restricted and unrestricted purposes, including administrative and program support and scholarships. In addition, the District paid the Foundation $258,000 under a contract for services to develop, coordinate, manage, and administer fundraising and alumni involvement programs for the District. Complete financial statements for the Foundation can be obtained from the Eastern Arizona College Foundation, 615 N. Stadium Ave., Thatcher, Arizona 85552.

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 represents 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 nonauxiliary services, which is consistent with the District's mission. Accordingly, revenues such as tuition, government contracts, food service, and dormitory charges, in which each party receives and gives up essentially equal values, are considered operating revenues. Other revenues, such as property taxes, state appropriations, and government grants are not generated from operations and are considered nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

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

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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 with a maturity of three months or less when purchased. All investments are stated at fair value.

D. Inventories

All other 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:

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. Deferred Outflows and Inflows of Resources

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense in future periods. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will be recognized as a revenue in future periods.

G. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

H. Investment Earnings

Investment earnings are composed of interest.

I. Scholarship Allowances

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

J. Compensated Absences

Compensated absences payable consists of vacation leave and a calculated amount of sick leave employees earned 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’s option plan, sick leave benefits do vest. The option provides payment up to the maximum of 100 days of accrued sick days multiplied by the employee’s daily rate for employees who have at least 10 years of service and qualify for normal retirement, disability, or death benefit. An estimate of that amount is accrued as a liability in the financial statements.

Note 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) requires the District to deposit special tax levies for the District’s maintenance or capital outlay with the County Treasurer. A.R.S. does not require the District to deposit other public monies in its custody with the County Treasurer; however, the District must act as a prudent person dealing with another’s property when making investment decisions about those monies. A.R.S. requires collateral for deposits at 102 percent of all deposits not covered by federal depository insurance. A.R.S. does not include any requirements for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District’s investments.

Deposits—At June 30, 2016, the carrying amount of the District's deposits was $927,528 and the bank balance was $1,524,258. The District does not have a formal policy with respect to custodial credit risk of deposits.

Investments—At June 30, 2016, the fair value of the District’s share of the State Treasurer’s Local Government Investment Pool 7 was $30,243,107. Investments in the State Treasurer’s investment pools are valued at the pool’s share price multiplied by the number of shares the District held. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

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, 2016, the District’s investment in the State Treasurer’s Local Government Investment Pool 7 had a weighted average maturity of 71 days.

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	7,464,919	18,424	-	7,483,343
Construction in progress	65,392	1,193,150	(23,794)	1,234,748
Total capital assets not being depreciated	7,530,311	1,211,574	(23,794)	8,718,091
Capital assets being depreciated:				
Infrastructure	26,827		-	26,827
Buildings	45,546,239	76,191	-	45,622,430
Equipment	13,587,321	894,728	(143,728)	14,338,322
Improvements other than buildings	2,763,844	-	-	2,763,844
Library materials	1,011,146	67,864	(33,817)	1,045,193
Total capital assets being depreciated	62,935,377	1,038,783	(177,545)	63,796,615
Less accumulated depreciation for:				
Infrastructure	(179)	(537)	-	(716)
Buildings	(21,045,008)	(1,029,587)	-	(22,074,595)
Equipment	(8,851,730)	(1,058,650)	142,753	(9,767,627)
Improvements other than buildings	(2,187,669)	(67,616)		(2,255,285)
Library materials	(739,900)	(49,341)	33,817	(755,424)
Total accumulated depreciation	(32,824,486)	(2,205,731)	176,570	(34,853,647)
Total capital assets being depreciated, net	30,110,891	(1,166,948)	(975)	28,942,968
Capital assets, net	$ 37,641,202	$ 44,626	$ (24,769)	$ 37,661,059

The District had one major contractual commitment project at June 30, 2016, for the construction of the ITE Building Renovation (Fab Lab). At June 30, 2016, the District had spent $943,390 on the project and had remaining contractual commitments with contractors of $1,029,453.

Note 4 – Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within one year
Net pension liability	$ 30,172,192	$ 4,321,176	$ 2,842,394	$ 31,650,974	
Compensated absences payable	3,018,539	931,833	1,207,339	2,743,033	966,067
Total long-term liabilities	$ 33,190,731	$ 5,253,009	$ 4,049,733	$ 34,394,007	$ 966,067

Note 5 - Risk Management

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

The District finances uninsured risks of loss for medical benefits to eligible employees and their dependents. The healthcare plan provides coverage for amounts up to $100,000 per insured individual. 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 $1,937,187 at June 30, 2016, includes the amount payable for medical benefits. It is the estimated cost of settling claims that have been incurred and future claims that may occur. Changes in the District's medical benefits payable for the years ended June 30, 2015 and 2016, are as follows:

Medical benefits:	2016	2015
Claims payable, beginning of year	$ 1,893,809	$ 1,625,944
Current year actual and estimated claims	3,141,746	3,047,238
Less: Claims payments	3,098,368	2,779,373
Estimated claims payable, end of year	$ 1,937,187	$ 1,893,809

Note 6 - Pension and other postemployment benefits

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

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

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

*With actuariallly reduced benefits.

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

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required the active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.5 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, the District was required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 percent for retirement, 0.13 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the District in positions that an employee who contributes to the ASRS would typically fill. The District's contributions to the pension plan for the year ended June 30, 2016, were $2,091,140. The District's OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

Years ended June 30	Health Benefit Supplement Fund	Long – Term Disability Fund
2016	$82,683	$19,844
2015	96,290	19,584
2014	97,495	38,998

Pension liability - At June 30, 2016, the District reported a liability of $31,650,974 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The District's proportion measured as of June 30, 2015, was 0.2032 percent, which was an decrease of 0.000713 from its proportion measured as of June 30, 2014.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2016, the District recognized pension expense for ASRS of $1,802,056. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 863,686	$ 1,658,543
Net difference between projected and actual earnings on pension plan investments	-	1,014,344
Changes in proportion and differences between district contributions and proportionate share of contributions	174,856	84,178
District contributions subsequent to the measurement date	2,091,140	-
Total	$ 3,129,682	$ 2,757,065

The $2,091,140 reported as deferred outflows of resources related to ASRS pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30		
2017	$	(575,458)
2018		(1,134,673)
2019		(740,620)
2020		732,228

Actuarial assumptions - The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.93%
Total	100%	

Discount rate - The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the ASRS net pension liability to changes in the discount rate - The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
District's proportionate share of the net pension liability	$ 41,473,592	$ 31,650,974	$ 24,919,262

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

Pension contributions payable - The District's accrued payroll and employee benefits included $67,912 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2016.

Note 7 – Operating Expenses

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

Personal services	$	29,925,284
Contract services		2,444,592
Supplies and other services		2,658,050
Communications and utilities		1,425,837
Scholarships		2,917,072
Depreciation		2,205,731
Other		2,572,485
Total	$	44,149,051

Note 8 – Discretely Presented Component Unit Disclosures

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

A. Nature of Activities and Significant Accounting Policies

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

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

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

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

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.

Property and equipment are recorded at cost. Depreciation is recorded using the straight-line method. Expenditures for repairs and maintenance are charged to expense as incurred. Expenses for additions and betterments are capitalized and depreciated over the estimated remaining useful life of the related asset. Gains and losses on sales and retirements are reflected in income during the year of actual sale or retirement.

Donations of property and equipment are recorded as contributions at their estimated fair value at date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

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 consist primarily of marketable securities. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets. Investment income in the Statement of Activities is reported net of investment expenses, such as custodial and advisory fees, of $32,133. Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Investments at June 30, 2016, were comprised of the following:

	Level 1	Level 2	Level 3	Total
Multi-strategy mutual funds	$ 65,597	$ -	$ -	$ 65,597
Municipal bonds	-	42,006	-	42,006
Corporate bonds		70,924		70,924
Managed investment account				
Multi-strategy mutual funds	5,144,421	-	-	5,144,421
	$ 5,210,018	$ 112,930	$ -	$ 5,322,948

C. Property and Equipment

Property and equipment at June 30, 2016, are summarized as follows:

Office furniture and equipment	$ 13,898
Building	21,985
Land	820,225
	856,108
Less accumulated depreciation	(33,945)
	$ 822,163

Depreciation expense for the year ended June 30, 2016, was $2,002.

D. 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.

E. 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 were to be paid a percentage annually of the fair value of the trust assets for the rest of their natural lives. During fiscal 2016, the trust ended with the passing of the Unitrust's remaining beneficiary and the remaining assets of approximately $142,000 became available for the Foundation's unrestricted use.

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, 2016, totaled $95,602 (consisting of cash and marketable securities of $5,924 and $89,678, 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 ($29,751 at June 30, 2016) is calculated using the trust rate of 6% and applicable mortality tables.

During fiscal 2015, the Foundation was the recipient of another gift annuity. Under the terms of the gift annuity, the donor will be paid $6,300 annually for the remainder of the joint annuitants' natural lives. At the end of the annuity, the remaining assets are available for the Foundation's use. Assets held for the annuity are reported at fair value and at June 30, 2016, totaled $91,287 (consisting of cash and marketable securities of $2,439 and $88,848, 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 ($44,126 at June 30, 2016) is calculated using the trust rate of 9% and applicable mortality tables.

F. Endowments

The Foundation's endowments consist of both donor-restricted contributions and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

As of June 30, 2016, the Board of Directors has designated $1,769,506 of unrestricted net assets as a general endowment fund to support the mission of the Foundation. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Foundation has interpreted Arizona's Management of Charitable Funds Act (MCFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MCFA. In accordance with MCFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Changes in endowment net assets for the year ending June 30, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$1,848,854	$1,785,020	$659,219	$4,293,093
Contributions	-	1,719,527	1,000	1,720,527
Investment income	24,999	34,802	-	59,801
Net gain (loss) on investments	(16,353)	(4,088)	-	(20,441)
Appropriated for expenditure	(87,994)	(330,301)	-	(418,295)
Endowment net assets, ending	$1,769,506	$3,204,960	$660,219	$5,634,685

G. Restrictions on Net Assets

Restricted net assets are available for the following purposes:

	Temporarily Restricted	Permanently Restricted
Scholarships	$3,097,550	$660,219
Split-interest gift annuities	186,889	-
	$3,284,439	$660,219

H. 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 Edward Jones of Maryland Heights, Missouri. The managed investment account is managed by the TIAA-CREF Trust Company, FSB, of Boston, Massachusetts.

Graham County Community College District
(Eastern Arizona College)
Required supplementary information
Schedule of the District’s proportionate share of the net pension liability
June 30, 2016

Arizona State Retirement System	Reporting Fiscal Year (Measurement Date)		
	2016	2015	2014 through 2007
	(2015)	(2014)	Information
District's proportion of the net pension liability	0.2032%	0.203913%	not available
District’s proportionate share of the net pension liability	$ 31,650,974	$ 30,172,192	
District’s covered payroll (1)	$ 19,067,413	$ 19,043,860	
District’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	166.00%	158.44%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

(1) Fiscal Year 2014/15 District's covered payroll restated per GASB Statement No. 82, *Pension Issues*

Graham County Community College District
(Eastern Arizona College)
Required supplementary information
Schedule of District's pension contributions
June 30, 2016

Arizona State Retirement System	Reporting Fiscal Year				
	2016	2015	2014	2013	2012
Statutorily required contribution	$ 2,091,140	$ 2,033,427	$ 1,979,071	$ 1,830,603	$ 1,534,238
District's contributions in relation to the statutorily required contribution	2,091,140	2,033,427	1,979,071	1,830,603	1,534,238
District's contribution deficiency	$ -	$ -	$ -	$ -	$ -
District's covered payroll (1)	$ 19,774,535	$ 19,067,413	$ 19,043,860	$ 18,320,229	$ 15,517,223
District's contributions as a percentage of covered payroll	10.57%	10.66%	10.39%	9.99%	9.89%

Arizona State Retirement System	Reporting Fiscal Year				
	2011	2010	2009	2008	2007
Statutorily required contribution	$ 1,343,843	$ 1,225,911	$ 1,183,115	$ 1,105,580	$ 958,889
District's contributions in relation to the statutorily required contribution	1,343,843	1,225,911	1,183,115	1,105,580	958,889
District's contribution deficiency	$ -	$ -	$ -	$ -	$ -
District's covered payroll (1)	$ 14,920,366	$ 14,718,172	$ 14,886,503	$ 13,889,714	$ 12,708,256
District's contributions as a percentage of covered payroll	9.01%	8.33%	7.95%	7.96%	7.55%

(1) Fiscal Year 2014/15 District's covered payroll restated per GASB Statement No. 82, *Pension Issues*

Graham County Community College District
(Eastern Arizona College)
Required supplementary information
Notes to pension plan schedules
June 30, 2016

Note 1 - Change in accounting principle

For the year ended June 30, 2016, the District implemented the provisions of GASB Statement No. 82, *Pension Issues*. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

Supplementary Information

Graham County Community College District
(Eastern Arizona College)
Schedule of expenditures of federal awards
Year ended June 30, 2016

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number	Program expenditures
Department of the Interior					
15 231	Fish, Wildlife and Plant Conservation Resource Management				$ 38,016
Department of Labor					
17 282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants		Pinal County Community College District	TC-26465-14-60-A-4	658,491
National Science Foundation					
47 076	Education and Human Resources		Science Foundation Arizona	DUE-1400687	19,071
Small Business Administration					
59 037	Small Business Development Centers		Maricopa County Community College District	SBAHQ-15-B-0040, SBAHQ-16-B-0051	98,119
Department of Education					
84 048	Career and Technical Education—Basic Grants to States		Arizona Department of Education	15FCTDBG-512241-20A, 16FCTDBG-612241-20A	188,957
84 334	Gaining Early Awareness and Readiness for Undergraduate Programs				1,045,150
84 007	Federal Supplemental Educational Opportunity Grants	Student Financial Assistance Cluster			103,578
84 033	Federal Work-Study Program	Student Financial Assistance Cluster			238,677
84 063	Federal Pell Grant Program	Student Financial Assistance Cluster			4,674,300
	Total Student Financial Assistance Cluster				5,016,555
	Total Department of Education				6,250,662
	Total expenditures				$ 7,064,359

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, 2016

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Graham County Community College District for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 *Catalog of Federal Domestic Assistance*.

Note 4 - Indirect cost rate

The District did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 30, 2017. Our report includes a reference to other auditors who audited the financial statements of the Eastern Arizona College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. However, the financial statements of the Eastern Arizona College Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Eastern Arizona College Foundation.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

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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 30, 2017

Graham County
Community College District
(Eastern Arizona College)
Single Audit Section
June 30, 2016

STATE OF ARIZONA

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report on compliance for each major federal program; 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) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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Other matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and that is described in the accompanying schedule of findings and questioned costs as item 2016-101. Our opinion on the major federal program is not modified with respect to this matter.

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 the Uniform Guidance, 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-101, that we consider to be a significant deficiency.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Graham County Community College District's response to finding

Graham County Community College District's response to the finding identified in our audit is presented on page 47. The District's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on it.

Debbie Davenport
Auditor General

March 30, 2017

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Summary of auditors' results

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles	**Unmodified**
Internal control over financial reporting	
Material weaknesses identified?	**No**
Significant deficiencies identified?	**None reported**
Noncompliance material to the financial statements noted?	**No**

Federal awards

Internal control over major programs	
Material weaknesses identified?	**No**
Significant deficiency identified?	**Yes**
Type of auditors' report issued on compliance for major programs	**Unmodified**
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	**Yes**

Identification of major programs

CFDA number	Name of federal program or cluster
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
84.007, 84.033, 84.063	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	Yes

Other matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with 2 CFR 200.511(b)?	Yes

Financial statement findings

None reported.

Federal award findings and questioned costs

2016-101

Cluster name:	**Student Financial Assistance Cluster**
CFDA no. and name:	84.007 **Federal Supplemental Educational Opportunity Grants** 84.033 **Federal Work-Study Program** 84.063 **Federal Pell Grant Program**
Award numbers and years:	P007A150114, P033A150114, P063P20151064; July 1, 2015 through June 30, 2016
Federal agency:	**Department of Education**
Compliance requirement:	Special tests and provisions
Questioned costs:	N/A

Criteria—For the Federal Pell Grant Program, 34 Code of Federal Regulations (CFR) §690.83(b)(2) requires institutions to notify the National Student Loan Data System (NSLDS) within 30 days of a change in student status or include the status change in a response to an enrollment-reporting roster file within 60 days. Student enrollment status changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves of absence.

Condition and context—The District did not have adequate internal control procedures to ensure that all student enrollment status changes were reported to the NSLDS within the required time periods. Specifically, for 7 of 40 students tested, the District did not report the change in student status to NSLDS within 30 days or include the change in its response to an enrollment reporting roster file within 60 days.

Effect—The District did not comply with the enrollment reporting requirements of 34 CFR §690.83(b)(2). Consequently, student enrollment statuses in the NSLDS were not always accurate and/or reported in a timely manner. If the NSLDS does not accurately reflect students' enrollment on a timely basis, students may not be asked to repay student financial assistance grants and loans if or when required.

Cause—The District relies on class instructors to provide it with accurate and updated student attendance and enrollment status. However, the class instructors did not always submit updated student attendance and enrollment status information in a timely manner for the District to report accurately to the NSLDS within the required timeframe.

Recommendation—The District should develop and implement internal control procedures to ensure that it identifies all student status changes required to be reported and accurately reports those changes to the NSLDS within 30 days or includes them in a response to an enrollment reporting roster file within 60 days.

The District's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2015-101.

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Date: March 24, 2017

Debbie Davenport
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

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

Sincerely,

Heston Welker
Director of Fiscal Control and Controller

Federal award findings and questioned costs

2016-101

Cluster name:	Student Financial Assistance Cluster
CFDA Nos. and names:	84.007 Federal Supplemental Educational Opportunity Grants 84.033 Federal Work-Study Program 84.063 Federal Pell Grant Program
Contacts:	Jeanne Bryce, Provost; Chief Academic and Student Officer Bill Osborn, Director of Financial Aid

Anticipated Completion Date: June 2017

District Response: Concur

Corrective Action Planned:

The District will develop and implement internal control procedures to ensure that they identify all student status changes required to be reported, and accurately report those changes to the NSLDS within the required timeframe. This effort will be led by the office of the Provost in conjunction with the Deans, who will jointly monitor enrollment reporting over their respective areas. The enrollment reports will also be monitored by the office of the Director of Financial Aid to ensure that enrollment dates are reported accurately and timely.

EASTERN ARIZONA COLLEGE

March 24, 2017

Debbie Davenport
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

We have prepared the accompanying summary schedule of prior audit findings as required by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs.

Sincerely,

Heston Welker
Director of Fiscal Control and Controller

Eastern Arizona College
615 North Stadium Avenue, Thatcher, Arizona 85552-0769 ▲ 928·428·8472 ▲ Web: www.eac.edu

Graham County Community College District
(Eastern Arizona College)
Summary schedule of prior audit findings
Year Ended June 30, 2016

Status of federal award findings and questioned costs

CFDA no. and program name: 84.007 Federal Supplemental Educational Opportunity Grants
84.033 Federal Work-Study Program
84.063 Federal Pell Grant Program

Finding no.: 2015-101

Status: Partially Corrected

In reporting year FY2015 it was determined that the District did not always submit complete data to the third-party servicer and did not effectively monitor the third-party servicer to ensure changes in student statuses were reported accurately to the NSLDS in a timely manner. The latter issue was fully corrected, and the District developed procedures to monitor the reporting of student status changes submitted by NSC to NSLDS to ensure their accuracy and timely reporting. The other issue of ensuring that all student status changes are being reported accurately, continues to be an issue as a result of instructors failing to accurately report class rosters and attendance. This issue has resulted in a finding for the reporting year FY2016 and is being addressed in the corrective action plan of finding no.: 2016-101.