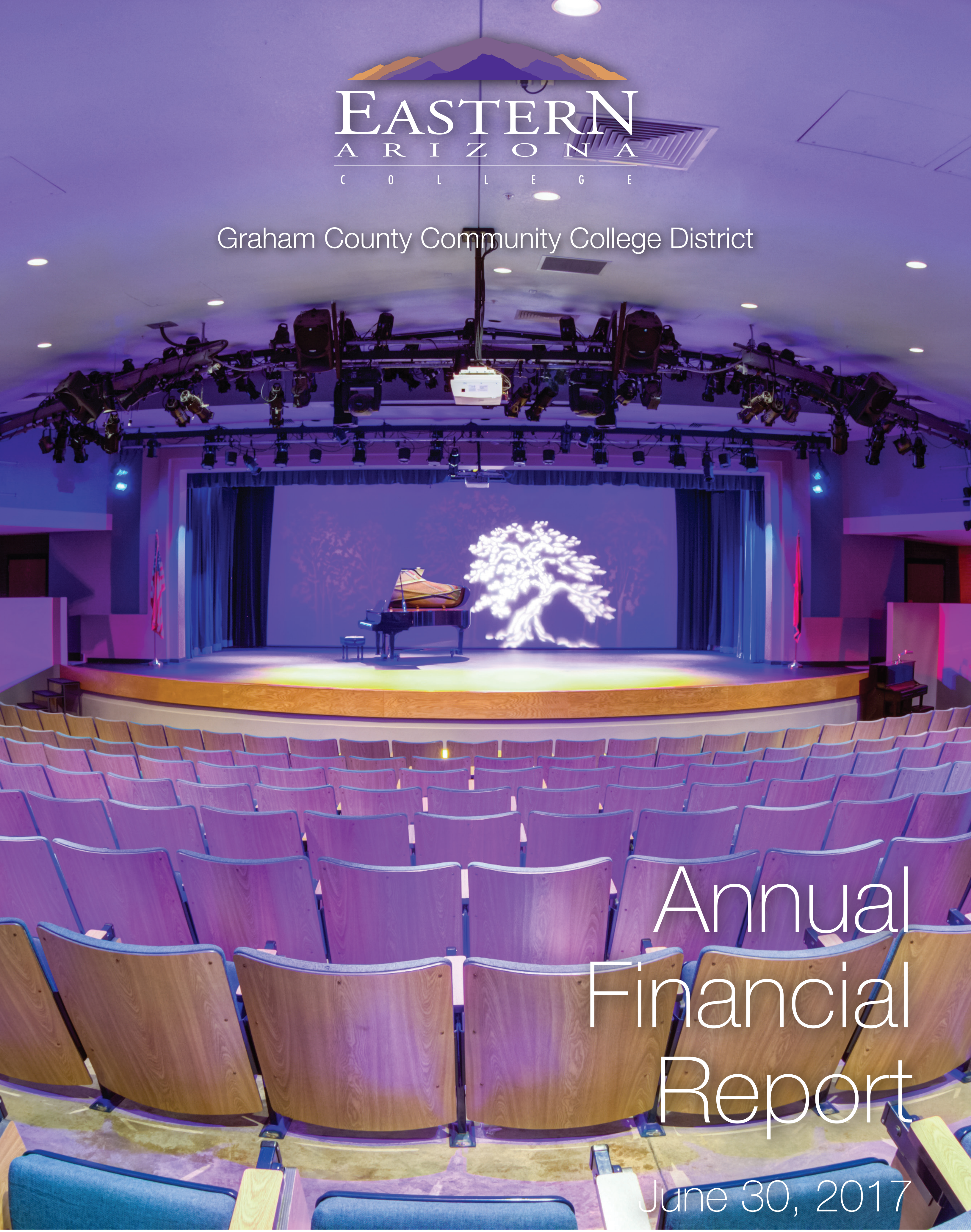
Eastern Arizona College

Graham County Community College District



Annual Financial Report

June 30, 2017

Graham County
Community College District
(Eastern Arizona College)
Single Audit Reporting Package
June 30, 2017

Graham County Community College District
(Eastern Arizona College)
Single audit reporting package
Year ended June 30, 2017

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

The Governing Board of
Graham County Community College District

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Graham County Community College District as of and for the year ended June 30, 2017, 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, 2017, 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 11, schedule of the District's proportionate share of the net pension liability on page 33, and schedule of district pension contributions on page 34 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 on page 36 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, 2018, 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 solely 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 the effectiveness of the District's 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.

Jay Zsorey, CPA
Director, Financial Audit Division

March 30, 2018

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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, 2017. 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, 2017. 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, 2017. 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, 2017. 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, 2017 and June 30, 2016

		2017		2016	% Change
Assets:					
Current assets	$	31,132,724	$	34,536,405	-10%
Noncurrent assets					
Capital assets, net		37,731,204		37,661,059	0%
Total assets		68,863,928		72,197,464	-5%
Deferred Outflows of Resources		6,207,838		3,129,682	98%
Liabilities:					
Other liabilities		2,903,208		3,400,946	-15%
Long-term liabilities		35,584,449		34,394,007	3%
Total liabilities		38,487,657		37,794,953	2%
Deferred Inflows of Resources		4,089,573		2,757,065	48%
Net Position:					
Net investment in capital assets		37,731,204		37,661,059	0%
Restricted net position		1,337,376		1,823,807	-27%
Unrestricted net position		(6,574,044)		(4,709,738)	40%
Total net position	$	32,494,536	$	34,775,128	-7%

Financial Highlights and Analysis

Statement of Net Position:

The total net position for Graham County Community College District decreased by $2,280,592, or 7%, from the prior fiscal year due to the District's expenses exceeding revenues. As a result, the District's total assets decreased by $3,333,536, or 5%, and total liabilities increased by $692,704, or 2%. The decrease to net position was also affected by an increase in deferred outflows, as well as an increase in deferred inflows of resources, as discussed below.

The District's current assets decreased by $3,403,681, or 10%, from the prior year. This decline was due to a cash and investment reduction of $3,738,315, or 12%, following the trend of the prior three years where cash and investments decreased 14% in 2016, 9% in 2015, and 5% in 2014. The decline in cash and investments was partially due to an increase in receivables of $342,319, as well as decreases in payroll and employee benefits of $386,440, compensated absences payable of $384,842, and insurance claims payable of $79,589. 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 prevent this trend.

The majority of the increase in receivables as discussed above is attributed to an increase in government grants and contracts receivables of $480,894, an 18% increase. This increase was primarily due to an increase of receivables due from Gila County Provisional District contract of $962,246. This increase was offset by decreases in receivables of the following grants: Trade Adjustment Assistance Community College and Career Training grant of $302,779, the Pell Grant of $41,743, the Federal Work Study of $31,528 and the Gear Up Grant of $30,637. The remaining receivables decrease of $74,665 was due to receivable changes in various other grants and contracts.

Deferred outflows of resources increased by $3,078,156, or 98% due to an increase in the net difference between projected and actual earnings on pension plan investments. The deferred outflows of resources amount is comprised of contributions related to the ASRS that have not yet been recognized as a reduction of the net pension liability, and the difference between expected and actual pension experience and the net difference between projected and actual earnings on pension plan investments that have not yet been recognized as an expense.

As previously mentioned, total liabilities increased by 2% with other liabilities decreasing by 15%, and long-term liabilities increasing by 3%. The decrease of 15% in other liabilities, or $497,738, is mostly attributed to decreasing employee benefits of $466,029 and unearned revenues decreasing by $91,372. These decreases were offset by an increase of deposits held in custody for others of $51,951, and a slight increase of accounts payable of $7,712.

The 3% increase in long-term liabilities amounted to a $1,190,442 increase. Within this category, compensated absences payable decreased by $317,294, while the institution's net pension liability with ASRS increased by $1,575,284, or 5%, similar to last year's increase.

Deferred inflows of resources increased by $1,332,508. This 48% increase is a result of differences between the expected and actual pension experience and changes of assumptions or other inputs offset by the differences between the projected and actual earnings 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, 2017 and 2016

Operating revenues:	2017	2016	% Change
Tuition and fees, net of scholarship allowances	$ 3,300,531	$ 2,901,968	14%
Government contracts	5,545,982	5,778,981	-4%
Other	869,216	789,823	10%
Total operating revenues	9,715,729	9,470,772	3%
Nonoperating revenues:			
Property taxes	5,783,092	5,853,935	-1%
State appropriations	17,540,700	17,283,900	1%
Government grants	8,066,856	7,193,856	12%
Other	735,816	650,959	13%
Total nonoperating revenues	32,126,464	30,982,650	4%
Total revenues	41,842,193	40,453,422	3%
Operating expenses:			
Instruction	17,222,694	17,093,332	1%
Academic support	797,488	774,371	3%
Student services	6,231,502	6,249,844	0%
Institutional support	8,034,024	8,290,798	-3%
Operation and maintenance of plant	4,061,292	4,065,042	0%
Scholarships	3,014,105	2,917,072	3%
Auxiliary enterprises	2,478,117	2,552,861	-3%
Depreciation	2,283,563	2,205,731	4%
Total operating expenses	44,122,785	44,149,051	0%
Decrease in net position	(2,280,592)	(3,695,629)	-38%
Net position, beginning of year	34,775,128	38,470,757	-10%
Net position, end of year	$ 32,494,536	$ 34,775,128	-7%

Statement of Revenues, Expenses, and Changes in Net Position

Graham County Community College District has five major sources of revenue that account for 96% of all revenues. These are state appropriations (42%), government grants (19%), property taxes (14%), government contracts (13%), and tuition and fees (8%).

Total revenue for the District increased by 3%, or $1,388,771. Operating revenues were up 3%, or $244,957, due primarily to an increase of tuition and fees of $398,563. This increase was offset by a decrease in government contracts of $232,999. The remaining increase was due to a change in other revenue by 10% or $79,393.

Nonoperating revenues increased by 4%, or $1,143,814 due mostly to an increase of government grants of $873,000. The increase in grants is attributed mostly to the Federal Pell Grant increasing by $498,991 and the TAACCCT grant increasing by $224,488. The Basic Grant also increased by $84,602 and the remaining increase in this category was due to small changes in the remaining grants. State appropriations remained virtually the same, increasing very slightly by $256,800, or 1%. There was also an $84,857, or 13% increase in the other category, while property taxes remained virtually the same with a slight decrease of 1%, or $70,843.

Overall, operating expenses remained virtually unchanged with a very slight decrease of $26,266. Aside from depreciation, no area experienced more than a 3% change. This was the result of the District attempting to avoid any budget increases while keeping expenses level, in consideration of decreased state funding and static revenues.

Capital Assets Administration

As of June 30, 2017, the District's capital assets, net of accumulated depreciation, totaled $37.7 million, a net increase of $70,145, remaining essentially unchanged from the prior year. During the 2017 fiscal year, the District acquired land and completed construction of the Industrial Technical Education Building Renovation (Fab Lab) for a total cost of approximately $2 million. The District had no major active construction projects or commitments as of June 30, 2017. 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

Aside from fiscal year's 2017 slight increase, 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. Over the last five years, losses for the District total $15.2M, largely due to the aforementioned decrease in state appropriations, and increasing expenses 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 $5 per credit hour in fiscal year 2018 which will also be followed by another increase of $5 per credit hour in 2019. 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, 2017

	Business-Type Activities
Assets	
Current assets:	
Cash and cash equivalents	$ 27,432,320
Receivables (net of allowance for uncollectibles):	
Property taxes	376,820
Government grants and contracts	3,105,775
Other	204,734
Inventories	13,075
Total current assets	31,132,724
Noncurrent assets:	
Capital assets, not being depreciated	7,738,638
Capital assets, being depreciated, net	29,992,566
Total noncurrent assets	37,731,204
Total assets	68,863,928
Deferred Outflows of Resources	
Deferred outflows related to pensions	6,207,838
Total deferred outflows of resources	6,207,838
Liabilities	
Current liabilities:	
Accounts payable	319,561
Accrued payroll and employee benefits	428,681
Insurance claims payable	1,857,598
Deposits held in custody for others	262,824
Unearned revenues	34,544
Current portion of compensated absences payable	898,519
Total current liabilities	3,801,727
Noncurrent liabilities:	
Compensated absences payable	1,459,672
Net pension liability	33,226,258
Total noncurrent liabilities	34,685,930
Total liabilities	38,487,657
Deferred Inflows of Resources	
Deferred inflows related to pensions	4,089,573
Total deferred inflows of resources	4,089,573
Net Position	
Net investment in capital assets	37,731,204
Restricted:	
Expendable for workforce development	1,337,376
Unrestricted (deficit)	(6,574,044)
Total net position	$ 32,494,536

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Financial Position—Component Unit
June 30, 2017

		Eastern Arizona College Foundation
Assets		
Cash and cash equivalents	$	82,692
Investments		5,877,608
Promise to give		350,440
Property and equipment, net		86,325
Museum collection		221,075
Total assets		6,618,140
Liabilities		
Accounts payable		1,535
Accrued expenses		21,007
Liability under split-interest agreements		42,696
Total liabilities		65,238
Net Assets		
Unrestricted		2,534,467
Temporarily restricted		3,356,874
Permanently restricted		661,561
Total net assets		6,552,902
Total net assets and liabilities	$	6,618,140

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, 2017

	Business-Type Activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of $4,518,302)	$ 3,300,531
Government contracts	5,545,982
Private contracts	101,635
Food service income (net of scholarship allowances of $640,471)	226,543
Dormitory rentals and fees (net of scholarship allowances of $387,134)	287,781
Other	253,257
Total operating revenues	9,715,729
Operating expenses:	
Educational and general:	
Instruction	17,222,694
Academic support	797,488
Student services	6,231,502
Institutional support	8,034,024
Operation and maintenance of plant	4,061,292
Scholarships	3,014,105
Auxiliary enterprises	2,478,117
Depreciation	2,283,563
Total operating expenses	44,122,785
Operating loss	(34,407,056)
Nonoperating revenues (expenses):	
Property taxes	5,783,092
State appropriations	17,540,700
Government grants	8,066,856
Share of state sales taxes	603,632
Investment earnings	140,708
Loss on disposal of capital assets	(8,524)
Total nonoperating revenues	32,126,464
Decrease in net position	(2,280,592)
Net position July 1, 2016	34,775,128
Net position, June 30, 2017	$ 32,494,536

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Activities—Component Unit
Year Ended June 30, 2017

	Eastern Arizona College Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Foundation revenue	$ 281,639	$ -	$ -	$ 281,639
Contributions		518,355	1,342	519,697
Investment income	39,856	75,820		115,676
Net realized and unrealized gains on investments	142,344	176,242	-	318,586
Change in value of split-interest agreement	-	29,093	-	29,093
Total Revenue and Support	463,839	799,510	1,342	1,264,691
Net assets released from restrictions:				
Satisfaction of restrictions	727,075	(727,075)	-	-
Total Revenue, Support, and Net Assets Released from Restrictions	1,190,914	72,435	1,342	1,264,691
Expenses and Losses				
Program services:				
Scholarship Awards	309,999	-	-	309,999
Supporting Activities:				
General and administrative	327,003	-	-	327,003
Fundraising	20,383	-	-	20,383
Loss on disposition of property	447,565	-	-	447,565
Total Expenses and Losses	1,104,950	-	-	1,104,950
Change in net assets	85,964	72,435	1,342	159,741
Net assets at July 1, 2016	2,448,503	3,284,439	660,219	6,393,161
Net assets at June 30, 2017	$ 2,534,467	$ 3,356,874	$ 661,561	$ 6,552,902

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2017

	Business-Type Activities
Cash flows from operating activities	
Tuition and fees	$ 3,300,531
Government contracts	4,376,701
Private contracts	101,635
Food service receipts	226,543
Dormitory rentals and fees	287,781
Other receipts	414,150
Payments to suppliers and providers of goods and services	(9,428,746)
Payments for employee wages and benefits	(30,415,268)
Payments to students for scholarships	(3,001,046)
Net cash used for operating activities	34,137,719
Cash flows from noncapital financing activities:	
Property taxes	5,760,774
State appropriations	17,540,700
Government grants	8,663,871
Share of state sales taxes	603,632
Deposits held in custody for others received	289,206
Deposits held in custody for others disbursed	(237,255)
Net cash provided by noncapital financing activities	32,620,928
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	20,125
Payments made to contractors	(17,948)
Purchases of capital assets	(2,364,409)
Net cash used for capital and related financing activities	2,362,232
Cash flows from investing activities:	
Interest received on investments	140,708
Net cash provided by investing activities	140,708
Net decrease in cash and cash equivalents	(3,738,315)
Cash and cash equivalents, July 1, 2016	31,170,635
Cash and cash equivalents, June 30, 2017	$ 27,432,320

(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, 2017
(Continued)

Reconciliation of operating loss to net cash used for operating activities:		Business-Type Activities
Operating loss	$	(34,407,056)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation		2,283,563
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Net pension liability		1,575,284
Deferred outflows of resources related to pensions		(3,078,156)
Deferred inflows of resources related to pensions		1,332,508
Accounts payable		7,712
Government grants and contracts receivable		(1,169,281)
Other receivables		160,893
Compensated absences payable		(384,842)
Insurance claims payable		(79,589)
Inventories		7,685
Accrued payroll and employee benefits		(386,440)
Net cash used for operating activities	$	34,137,719
Net loss on disposal of capital assets with an original cost of $43,558 and accumulated depreciation of $15,729	$	27,829

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, 2017, the Foundation distributed $311,270 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 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 acquisition value. 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, 2017, the carrying amount of the District's deposits was $811,997 and the bank balance was $1,113,075. The District does not have a formal policy with respect to custodial credit risk of deposits.

Investments—At June 30, 2017, the fair value of the District’s share of the State Treasurer’s Local Government Investment Pool 7 was $26,620,322. 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, 2017, the District’s investment in the State Treasurer’s Local Government Investment Pool 7 had a weighted average maturity of 71 days.

Graham County Community College District
(Eastern Arizona College)
Notes to financial statements
June 30, 2017

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated:				
Land	7,483,343	234,000		7,717,343
Construction in progress	1,234,748	17,948	(1,231,401)	21,295
Total capital assets not being depreciated	8,718,091	251,948	(1,231,401)	7,738,638
Capital assets being depreciated:				
Infrastructure	26,827	-	-	26,827
Buildings	45,622,430	2,464,073	(43,558)	48,042,945
Equipment	14,338,322	764,219	(93,797)	15,008,744
Improvements other than buildings	2,763,844	85,150	-	2,848,994
Library materials	1,045,193	48,368	(234,860)	858,701
Total capital assets being depreciated	63,796,616	3,361,810	(372,215)	66,786,211
Less accumulated depreciation for:				
Infrastructure	(716)	(537)	-	(1,253)
Buildings	(22,074,595)	(1,048,591)	15,729	(23,107,457)
Equipment	(9,767,627)	(1,120,180)	92,976	(10,794,831)
Improvements other than buildings	(2,255,285)	(62,519)		(2,317,804)
Library materials	(755,424)	(51,736)	234,860	(572,300)
Total accumulated depreciation	(34,853,647)	(2,283,563)	343,565	(36,793,645)
Total capital assets being depreciated, net	28,942,969	1,078,247	(28,650)	29,992,566
Capital assets, net	$ 37,661,060	$ 1,330,195	$ (1,260,051)	$ 37,731,204

Note 4 – Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due within one year
Net pension liability	$ 31,650,974	$ 1,575,284		$ 33,226,258	
Compensated absences payable	2,743,033	1,600,148	$ 1,984,990	2,358,191	898,519
Total long-term liabilities	$ 34,394,007	$ 3,175,432	$ 1,984,990	$ 35,584,449	$ 898,519

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 $1,857,598 at June 30, 2017, 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, 2016 and 2017, are as follows:

Medical benefits:	2017	2016
Claims payable, beginning of year	$ 1,937,187	$ 1,893,809
Current year actual and estimated claims	3,109,495	3,141,746
Less: Claims payments	3,189,084	3,098,368
Estimated claims payable, end of year	$ 1,857,598	$ 1,937,187

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, 2017, statute required the active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 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 9.47 percent (9.17 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.09 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, 2017, were $2,064,797. 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
2017	$88,755	$22,189
2016	82,683	19,844
2015	96,290	19,584

Pension liability - At June 30, 2017, the District reported a liability of $33,226,258 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

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, 2016. The District's proportion measured as of June 30, 2016, was 0.20585 percent, which was an increase of 0.00265 from its proportion measured as of June 30, 2015.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2017, the District recognized pension expense for ASRS of $1,894,433. At June 30, 2017, 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	$ 201,914	$ 2,285,724
Changes of assumptions or other inputs		1,757,934
Net difference between projected and actual earnings on pension plan investments	3,600,620	
Changes in proportion and differences between district contributions and proportionate share of contributions	340,507	45,915
District contributions subsequent to the measurement date	2,064,797	-
Total	$ 6,207,838	$ 4,089,573

The $2,064,797 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, 2018. 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		
2018	$	(1,424,923)
2019		(1,025,597)
2020		1,494,385
2021		1,009,603

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
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, 2015, 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 8.75 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%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.84%
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 8.75 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	$ 42,366,002	$ 33,226,258	$ 25,898,181

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 $66,722 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2017.

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	$	29,248,530
Contract services		3,237,219
Supplies and other services		2,411,589
Communications and utilities		1,419,051
Scholarships		3,014,105
Depreciation		2,283,563
Other		2,503,728
Total	$	44,122,785

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 $26,537. 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, 2017, were comprised of the following:

	Level 1	Level 2	Level 3	Total
Multi-strategy mutual funds	$ 19,162	$ -	$ -	$ 19,162
Municipal bonds	-	20,586	-	$ 20,586
Corporate bonds	-	71,806	-	$ 71,806
Managed investment account	-	-	-	-
Multi-strategy mutual funds	5,766,054	-	-	5,766,054
	$ 5,785,216	$ 92,392	$ -	$ 5,877,608

C. Property and Equipment

Property and equipment at June 30, 2017, are summarized as follows:

Real estate	86,325
Less accumulated depreciation	-
	$ 86,325

There was no depreciation expense for the year ended June 30, 2017.

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 2009, the Foundation was the recipient of a gift annuity. Under the terms of the gift annuity, the donor was to be paid $6,000 annually for the remainder of the annuitant's natural life. During fiscal 2017, the gift annuity ended with the passing of the annuitant and the remaining assets of approximately $93,000 became available for the Foundation's unrestricted use.

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, 2017, totaled $117,875 (consisting of cash and marketable securities of $6,321 and $111,534, 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 ($42,696 at June 30, 2017) 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, 2017, the Board of Directors has designated $1,885,136 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 Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 UPMIFA. In accordance with UPMIFA, 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.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent rate of return.

The Foundation has a policy of appropriating for distribution each year a portion of the realized income from the endowment. This is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment income.

Endowment Net Asset Composition by type of fund as of June 30, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	-	$3,277,395	$661,561	$3,938,956
Board-designated endowment funds	1,885,136	-	-	1,885,136
	$1,885,136	$3,277,395	$661,561	$5,824,092

Changes in endowment net assets for the year ending June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$1,769,506	$3,204,960	$660,219	$5,634,685
Contributions	-	518,355	1,342	519,697
Investment income	9,862	75,820	-	85,682
Net gain (loss) on investments	142,344	176,242	-	318,586
Change in split-interest agreements	-	29,093	-	29,093
Realized loss on disposition of property	-	(447,565)	-	(447,565)
Appropriated for expenditure	(36,576)	(279,510)	-	(316,086)
Endowment net assets, ending	$1,885,136	$3,277,395	$661,561	$5,824,092

G. Restrictions on Net Assets

Restricted net assets are available for the following purposes:

	Temporarily Restricted	Permanently Restricted
Scholarships	$3,238,999	$661,561
Split-interest gift annuities	117,875	-
	$3,356,874	$661,561

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, 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)			
	2017 (2016)	**2016 (2015)**	**2015 (2014)**	**2014** through **2008**
District's proportion of the net pension liability	0.205850%	0.203200%	0.203913%	Information
District's proportionate share of the net pension liability	$ 33,226,258	$ 31,650,974	$ 30,172,192	not available
District's covered payroll	$ 19,774,535	$ 19,067,413	$ 19,043,860	
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	168.03%	166.00%	158.44%	
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%	

Graham County Community College District
(Eastern Arizona College)
Required supplementary information
Schedule of District's pension contributions
June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year				
	2017	**2016**	**2015**	**2014**	**2013**
Statutorily required contribution	$ 2,064,797	$ 2,091,140	$ 2,033,427	$ 1,979,071	$ 1,830,603
District's contributions in relation to the statutorily required contribution	2,064,797	2,091,140	2,033,427	1,979,071	1,830,603
District's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$19,734,192	$19,774,535	$19,067,413	$19,043,860	$18,320,229
District's contributions as a percentage of covered payroll	10.46%	10.57%	10.66%	10.39%	9.99%

	2012	**2011**	**2010**	**2009**	**2008**
Statutorily required contribution	$ 1,534,238	$ 1,343,843	$ 1,225,911	$ 1,183,115	$ 1,105,580
District's contributions in relation to the statutorily required contribution	1,534,238	1,343,843	1,225,911	1,183,115	1,105,580
District's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$15,517,223	$14,920,366	$14,718,172	$14,886,503	$13,889,714
District's contributions as a percentage of covered payroll	9.89%	9.01%	8.33%	7.95%	7.96%

Supplementary Information

GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Schedule of expenditures of federal awards
Year Ended June 30, 2017

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		Bureau of Land Management Arizona	L08AC15666	$ 2,120
15 231	Fish, Wildlife and Plant Conservation Resource Management		Bureau of Land Management Arizona	L12AC20586	28,955
	Total Department of Interior				31,075
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	882,979
National Science Foundation					
47 041	Engineering Grants		Arizona State University	1564872	6,729
47 076	Education and Human Resources		Science Foundation Arizona	DUE-1400687	27,021
	Total National Science Foundation				33,750
Small Business Administration					
59 037	Small Business Development Centers		Maricopa County Community College District	SBAHQ-16-B-0051 & SBAHQ-17-B-0026	95,478
Department of Education					
84 048	Career and Technical Education—Basic Grants to States		Arizona Department of Education	16FCTDBG-612241-20A & 17FCTDBG-712241-20A	273,559
84 334	Gaining Early Awareness and Readiness for Undergraduate Programs				1,029,515
84 007	Federal Supplemental Educational Opportunity Grants	Student Financial Assistance Cluster			103,578
84 033	Federal Work-Study Program	Student Financial Assistance Cluster			232,144
84 063	Federal Pell Grant Program	Student Financial Assistance Cluster			5,173,291
	Total Student Financial Assistance Cluster				5,509,013
	Total Department of Education				6,812,087
	Total expenditures				$ 7,855,369

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, 2017

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, 2017. 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 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 2017 *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

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, 2017, 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, 2018. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-03 and 2017-04 to be material weaknesses.

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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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-01, 2017-02, and 2017-05 to be significant deficiencies.

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*.

Graham County Community College District's response to findings

Graham County Community College District's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The District's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

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.

Jay Zsorey, CPA
Director, Financial Audit Division

March 30, 2018

Graham County
Community College District
(Eastern Arizona College)
Single Audit Section
June 30, 2017

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report on compliance for each major federal program and report on internal control over compliance

Members of the Arizona State Legislature

The Governing Board of
Graham County Community College District

Report on compliance for each major federal program

We have audited Graham County Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017. 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, 2017.

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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 2017-101. Our opinion on each major federal program is not modified with respect to these matters.

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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-101 and 2017-102, that we consider to be significant deficiencies.

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 responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The District's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Jay Zsorey, CPA
Director, Financial Audit Division

March 30, 2018

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?	**Yes**
Significant deficiencies identified?	**Yes**
Noncompliance material to the financial statements noted?	**No**

Federal awards

Internal control over major programs	
Material weaknesses identified?	**No**
Significant deficiencies 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
	Student Financial Assistance Cluster
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program

Dollar threshold used to distinguish between Type A and Type B programs	$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

2017-01

The District should improve its risk-assessment process to include information technology security

Criteria—The District faces risks of reporting inaccurate financial information and exposing sensitive data. An effective internal control system should include an entity-wide risk-assessment process that involves members of the District's administration and IT management to determine the risks the District faces as it seeks to achieve its objectives to report accurate financial information and protect sensitive data. An effective risk-assessment process provides the basis for developing appropriate risk responses and should include defining objectives to better identify risks and define risk tolerances, and identifying, analyzing, and responding to identified risks.

Condition and context—The District's annual risk-assessment process did not include a district-wide information technology (IT) security risk assessment over the District's IT resources, which include its systems, network, infrastructure, and data. Also, the District did not identify and classify sensitive information. Further, the District did not evaluate the impact disasters or other system interruptions could have on its critical IT resources.

Effect—There is an increased risk that the District's administration and IT management may not effectively identify, analyze, and respond to risks that may impact its IT resources.

Cause—The District does not have a formal process to perform risk-assessment procedures that include IT security.

Recommendation—To help ensure the District has effective policies and procedures to identify, analyze, and respond to risks that may impact its IT resources, the District needs to implement a district-wide IT risk-assessment process. The information below provides guidance and best practices to help the District achieve this objective.

- **Conduct an IT risk-assessment process at least annually—**A risk-assessment process should include the identification of risk scenarios, including the scenarios' likelihood and magnitude; documentation and dissemination of results; review by appropriate personnel; and prioritization of risks identified for remediation. An IT risk assessment could also incorporate any unremediated threats identified as part of an entity's security vulnerability scans.
- **Identify, classify, inventory, and protect sensitive information—**Security measures should be developed to identify, classify, and inventory sensitive information and protect it, such as implementing controls to prevent unauthorized access to that information. Policies and procedures should include the security categories into which information should be classified, as well as any state statutes and federal regulations that could apply, and require disclosure to affected parties if sensitive information covered by state statutes or federal regulations is compromised.
- **Evaluate the impact disasters or other system interruptions could have on critical IT resources—**The evaluation should identify key business processes and prioritize the resumption of these functions within time frames acceptable to the entity in the event of contingency plan activation. Further, the results of the evaluation should be considered when updating its disaster recovery plan.

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

2017-02

The District should improve security over its information technology resources

Criteria—The selection and implementation of security controls for the District's information technology (IT) resources, which include its systems, network, infrastructure, and data, are important because they reduce the risks that arise from the loss of confidentiality, integrity, or availability of information that could adversely impact the District's operations or assets. Therefore, the District should implement internal control policies and procedures for an effective IT security process that includes practices to help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT resources.

Condition and context—The District did not have sufficient written security policies and procedures over its IT resources.

Effect—There is an increased risk that the District may not prevent or detect the loss of confidentiality, integrity, or availability of systems and data.

Cause—The District had some processes in place but did not have written policies and procedures for several areas related to IT security. The District had relied on an informal process to provide security of IT resources and had not evaluated its IT security process against current IT standards and best practices.

Recommendation—To help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss of its IT resources, the District needs to develop its IT security policies and procedures. The District should review these policies and procedures against current IT standards and best practices, and implement them district-wide, as appropriate. Further, the District should train staff on the policies and procedures. The information below provides guidance and best practices to help the District achieve this objective.

- **Perform proactive logging and log monitoring**—Key user and system activity should be logged, particularly for users with administrative access privileges and remote access, along with other activities that could result in potential security incidents, such as unauthorized or inappropriate access. An entity should determine what events to log, configure the system to generate the logs, and decide how often to monitor these logs for indicators of potential attacks or misuse of IT resources. Finally, activity logs should be maintained where users with administrative access privileges cannot alter them.
- **Prepare and implement an incident response plan—**An incident response plan should be developed, tested, and implemented for an entity's IT resources, and staff responsible for the plan should be trained. The plan should coordinate incident-handling activities with contingency-planning activities and incorporate lessons learned from ongoing incident handling in the incident response procedures. The incident response plan should be distributed to incident response personnel and updated as necessary. Security incidents should be reported to incident response personnel so they can be tracked and documented. Policies and procedures should also follow regulatory and statutory requirements, provide a mechanism for assisting users in handling and reporting security incidents, and making disclosures to affected individuals and appropriate authorities if an incident occurs.
- **Provide training on IT security risks—**A plan should be developed to provide continuous training on IT security risks, including a security awareness training program for all employees that provides a basic understanding of information security, user actions to maintain security, and how to recognize and report potential indicators of security threats, including threats employees generate. Security awareness training should be provided to new employees and on an ongoing basis.

- **Perform IT vulnerability scans**—A formal process should be developed for vulnerability scans that includes performing vulnerability scans of its IT resources on a periodic basis and utilizing tools and techniques to automate parts of the process by using standards for software flaws and improper configuration, formatting procedures to test for the presence of vulnerabilities, measuring the impact of identified vulnerabilities, and approving privileged access while scanning systems containing highly sensitive data. In addition, vulnerability scan reports and results should be analyzed and legitimate vulnerabilities remediated as appropriate, and information obtained from the vulnerability-scanning process should be shared with the District's other departments to help eliminate similar vulnerabilities.
- **Apply patches**—Patches to IT resources should be evaluated, tested, and applied in a timely manner once the vendor makes them available.
- **Protect sensitive or restricted data**—Restrict access to media containing data the entity, federal regulation, or state statute identifies as sensitive or restricted. Such media should be appropriately marked indicating the distribution limitations and handling criteria for data included on the media. In addition, media should be physically controlled and secured until it can be destroyed or sanitized using sanitization mechanisms with the strength and integrity consistent with the data's security classification.

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

2017-03

The District should improve access controls over its information technology resources

Criteria—Logical and physical access controls help to protect a District's information technology (IT) resources, which include its systems, network, infrastructure, and data, from unauthorized or inappropriate access or use, manipulation, damage, or loss. Logical and physical access controls also help to ensure that authenticated users access only what they are authorized to. Therefore, the District should have effective internal control policies and procedures to control access to its IT resources.

Condition and context—The District has written policies and procedures for managing access to its IT resources; however, they lacked critical elements and the District did not consistently implement its policies and procedures to help prevent or detect unauthorized or inappropriate access to its IT resources.

Effect—There is an increased risk that the District may not prevent or detect unauthorized or inappropriate access or use, manipulation, damage, or loss of its IT resources, including sensitive and confidential information.

Cause—The District did not evaluate its policies and procedures against current IT standards and best practices. Additionally, the policies and procedures were inconsistently applied.

Recommendation—To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the District needs to review its logical and physical access policies and procedures over its IT resources against current IT standards and best practices, update them where needed, and implement them district-wide, as appropriate. Further, the District should train staff on the policies and procedures. The information below provides guidance and best practices to help the District achieve this objective.

- **Review user access—**A periodic, comprehensive review should be performed of all existing employee accounts to help ensure that network and system access granted is needed and compatible with job responsibilities.
- **Remove terminated employees' access to its IT resources—**Employees' network and system access should immediately be removed upon their terminations.
- **Review contractor and other nonentity account access—**A periodic review should be performed on contractor and other nonentity accounts with access to an entity's IT resources to help ensure their access remains necessary and appropriate.
- **Review all shared accounts—**Shared network access accounts should be reviewed and eliminated or minimized when possible.
- **Manage shared accounts—**Shared accounts should be used only when appropriate and in accordance with an established policy authorizing the use of shared accounts. In addition, account credentials should be reissued on shared accounts when a group member leaves.
- **Review and monitor key activity of users—**Key activities of users and those with elevated access should be reviewed for propriety.
- **Improve network and system password policies—**Network and system password policies should be improved and ensure they address all accounts.
- **Manage employee-owned and entity-owned electronic devices connecting to the network—**The use of employee-owned and entity-owned electronic devices connecting to the network should be managed, including specifying configuration requirements and the data appropriate to access; inventorying devices; establishing controls to support wiping data; requiring security features, such as passwords, antivirus controls, file encryption, and software updates; and restricting the running of unauthorized software applications while connected to the network.
- **Manage remote access—**Security controls should be utilized for all remote access. These controls should include appropriate configuration of security settings such as configuration/connections requirements and the use of encryption to protect the confidentiality and integrity of remote sessions.
- **Acceptable user agreements—**User agreements should be utilized to notify users of the acceptable information system use and have employees sign them to evidence that they agree to comply.
- **Review data center access—**A periodic review of physical access granted to the data center should be performed to ensure that it continues to be needed.

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

2017-04

The District should improve its configuration management processes over its information technology resources

Criteria—A well-defined configuration management process, including a change management process, is needed to ensure that the District's information technology (IT) resources, which include its systems, network, infrastructure, and data, are configured securely and that changes to these IT resources do not adversely affect security operations. IT resources are typically constantly changing in response to new, enhanced, corrected, or updated hardware and software capabilities and new security threats. The District should have effective written configuration management internal control policies and procedures to track and document changes made to its IT resources.

Condition and context—The District has written policies and procedures for managing changes to its IT resources; however, they lacked critical elements and the District did not consistently implement its configuration management policies and procedures. Also, the District did not have policies and procedures to ensure its IT resources were configured securely.

Effect—There is an increased risk that the District's IT resources may not be configured appropriately and securely and that changes to those resources could be unauthorized or inappropriate or could have unintended results without proper documentation, authorization, review, testing, and approval prior to being applied.

Cause—The District focused its efforts on the day-to-day operations and did not evaluate its policies and procedures against current IT standards and best practices.

Recommendation—To help prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources, the District needs to review its configuration management policies and procedures against current IT standards and best practices, update them where needed, and implement them district-wide, as appropriate. Further, the District should train staff on the policies and procedures. The information below provides guidance and best practices to help the District achieve this objective.

- **Document changes—**Changes made to IT resources should be logged and documented, and a record should be retained of all change details, including security impact analysis results and a post-change review.
- **Roll back changes—**Rollback procedures should be established that include documentation necessary to back out changes that negatively impact IT resources.
- **Test—**Changes should be tested prior to implementation, including performing a security impact analysis of the change.
- **Separate responsibilities for the change management process—**Responsibilities for developing and implementing changes to IT resources should be separated from the responsibilities of authorizing, reviewing, testing, and approving changes for implementation or, if impractical, performing a post-implementation review of the change to confirm the change followed the change management process and was implemented as approved.
- **Configure IT resources appropriately and securely, and maintain configuration settings—**Configure IT resources appropriately and securely, which includes limiting the functionality to ensure only essential services are performed, and maintain configuration settings for all systems.

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

2017-05

The District should improve its contingency planning procedures for its information technology resources

Criteria—It is critical that the District have contingency planning procedures in place to provide for the continuity of operations and to help ensure that vital information technology (IT) resources, which include its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other interruption. Contingency planning procedures include having a comprehensive, up-to-date contingency plan; taking steps to facilitate activation of the plan; and having system and data backup policies and procedures.

Condition and context—The District did not have a written contingency plan. Also, although the District was performing system and data backups, it did not have documented policies and procedures for performing backups or testing them to ensure they were operational and could be used to restore its IT resources.

Effect—The District risks not being able to provide for the continuity of operations, recover vital IT systems and data, and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system and data recovery.

Cause—The District focused its efforts on the day-to-day operations and did not evaluate its policies and procedures against current IT standards and best practices.

Recommendation—To help ensure district operations continue in the event of a disaster, system or equipment failure, or other interruption, the District needs to develop and document its contingency planning procedures. The District should review its contingency planning procedures against current IT standards and best practices and implement them district-wide, as appropriate. The information below provides guidance and best practices to help the District achieve this objective.

- **Develop and implement a contingency plan—**A contingency plan should be developed and implemented and include essential business functions and associated contingency requirements; recovery objectives and restoration priorities and metrics as determined in the entity's business-impact analysis; contingency roles and responsibilities and assigned individuals with contact information; identification of critical information assets and processes for migrating to the alternative processing site; processes for eventual system recovery and reconstitution to return the IT resources to a fully operational state and ensure all transactions have been recovered; and review and approval by appropriate personnel. The contingency plan should also be coordinated with incident-handling activities and stored in a secure location, accessible to those who need to use it, and protected from unauthorized disclosure or modification.
- **Move critical operations to a separate alternative site—**Policies and procedures should be developed and documented for migrating critical IT operations to a separate alternative site for essential business functions, including putting contracts in place or equipping the alternative site to resume essential business functions, if necessary. The alternative site's information security safeguards should be equivalent to the primary site.
- **Test the contingency plan—**A process should be developed and documented to perform regularly scheduled tests of the contingency plan and document the tests performed and results. This process should include updating and testing the contingency plan at least annually or as changes necessitate, and coordinating testing the District's with other plans such as its continuity of operations, cyber incident response, and emergency response plans. Plan testing may include actual tests, simulations, or table-top discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. The test results should be used to update or change the plan.
- **Train staff responsible for implementing the contingency plan—**An ongoing training schedule should be developed for staff responsible for implementing the plan that is specific to each user's assigned role and responsibilities.
- **Backup systems and data—**Establish and document policies and procedures for testing IT system software and data backups to help ensure they could be recovered if needed. Policies and procedures should require system software and data backups to be protected and stored in an alternative site with security equivalent to the primary storage site. Backups should include user-level information, system-level information, and system documentation, including security-related documentation. In addition, critical information system software and security-related information should be stored at an alternative site or in a fire-rated container.

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

Federal award findings and questioned costs

2017-101

Cluster name:	**Student Financial Assistance Cluster**
CFDA numbers and names:	84.007 **Federal Supplemental Educational Opportunity Grants** 84.033 **Federal Work-Study Program** 84.063 **Federal Pell Grant Program**
Award numbers and years:	P033A160114; P007A160114; P063P161064; July 1, 2016 through June 30, 2017
Federal agency:	**U.S. Department of Education**
Compliance requirement:	Special tests and provisions
Questioned costs:	None

Criteria—For the cluster's Pell Grant program, 34 Code of Federal Regulations (CFR) §690.83(b)(2) requires the District to accurately report to the National Student Loan Data System (NSLDS) student enrollment status changes within 30 days of a change or include the change in status 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. In addition, 2 CFR §200.303 requires the District to maintain effective internal control over its federal awards to provide reasonable assurance that the District is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The District did not always accurately report student enrollment status changes to the NSLDS within the required time frames. Specifically, for 1 of 40 students tested, the District did not correctly report the change in the student's status to NSLDS within 30 days or include the correct change in its response to an enrollment reporting roster file within 60 days. We performed further auditing procedures and identified a total of 18 students the National Student Clearinghouse rejected that required follow-up by the District, but which the enrollment status changes were not researched and reported. Of these 18 students, 5 Pell received grants during the year; however, we did not identify any improper disbursements for these students based on the students' enrollment status.

Effect—The District did not comply with the student 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, there is an increased risk that students may not be asked to repay student financial assistance grants and loans if or when required.

Cause—The District did not have policies and procedures in place to review students rejected by the National Student Clearinghouse, the third-party service provider, and follow up within a reasonable time to ensure the students' enrollment data is accurately reported to the NSLDS within the required time frames.

Recommendation—The District should develop and implement policies and procedures to ensure that it reviews and clears all students the National Student Clearinghouse rejects within a reasonable period of time in order to accurately report students' enrollment status 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 at the end of this report.

This finding is similar to prior year finding 2016-101

2017-102

Cluster name:	**Student Financial Assistance Cluster**
CFDA numbers and names:	84.007 **Federal Supplemental Educational Opportunity Grants** 84.033 **Federal Work-Study Program** 84.063 **Federal Pell Grant Program**
Award numbers and years:	P033A160114; P007A160114; P063P161064; July 1, 2016 through June 30, 2017
Federal agency:	**U.S. Department of Education**
Compliance requirement:	Matching
Questioned costs:	None

Criteria—For the Federal Supplemental Educational Opportunity Grants (FSEOG), and Federal Work-Study (FWS) programs, 34 CFR §§676.21 and 675.26, respectively, specify limits on the federal share of costs and require the District to match federal award costs of at least 25 percent for the FSEOG and FWS programs. In addition, the U.S. Department of Education's *Federal Student Aid Handbook* requires matching costs to be incurred during the year. Finally, 2 CFR §200.303 requires the District to maintain effective internal control over federal awards to provide reasonable assurance that the District is managing the award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—34 CFR §§676.21 and 675.26, respectively, specify limits on the federal share of costs and require the District to match federal award costs during the year of at least 25 percent for the FSEOG and FWS programs. In addition, the U.S. Department of Education's *Federal Student Aid Handbook* requires matching costs to be incurred during the year. The District did not have adequate policies and procedures in place to monitor, review, and approve its matchings costs for the FSEOG and FWS programs throughout the year. Specifically, program matching costs were not prepared, reviewed, and approved for allowability until September 2017, after the year ended and after the District had disbursed student assistance for the FSEOG and FWS programs. We performed further auditing procedures and determined that in September 2017, the District recorded matching costs of $25,895 and $74,202 for the FSEOG and FWS programs, respectively, which met the required match.

Effect—Without effective internal controls over monitoring program matching costs, there is an increased risk that the District may not meet its matching requirements.

Cause—The District believed that it had a multi-year waiver from the programs' matching requirements. The District was not aware that its most recently approved matching waiver ended on June 30, 2016, until it prepared its fiscal operations report and application to participate report in September 2017.

Recommendation—To help ensure the District complies with the FSEOG and FWS programs' matching requirements, the District should develop and implement written policies and procedures for monitoring its level matching throughout the year and preparing, reviewing, and approving its matching costs.

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

Date: March 26, 2018

Jay Zsorey
Director, Financial Audit Division
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Mr. Zsorey:

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 H Welker

Heston Welker
Director of Fiscal Control and Controller

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2017

Financial statement finding

2017-01

The District should improve its risk-assessment process to include information technology security

Name(s) of contact person(s): Thomas Thompson, Director Information Resources

Anticipated Completion Date: June 30, 2019

District Response: Concur

Corrective Action Planned: The District will strive to further formalize policies and procedures by implementing a district wide assessment plan covering the following items:

- Conduct an IT risk-assessment process at least annually
- Identify, classify, inventory, and protect sensitive information
- Evaluate the impact disasters or other system interruptions could have on critical IT resources

The improved assessment process will help the District to identify and analyze the inherent risks related to the utilization of information technology and avoid other potential future issues from occurring.

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2017

Financial statement finding

2017-02

The District should improve security over information technology resources

Name(s) of contact person(s): Thomas Thompson, Director Information Resources

Anticipated Completion Date: June 30, 2019

District Response: Concur

Corrective Action Planned: The District will strive to further formalize policies and procedures covering the following items and implement where applicable:

- Perform proactive logging and log monitoring
- Prepare and implement an incident response plan
- Provide training on IT security risks
- Perform IT vulnerability scans
- Apply patches
- Protect sensitive or restricted data

Having formalized written procedures will help the District to implement best IT practices and follow industry standards, as well as assist in the training of staff on implementing these policies and procedures.

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2017

Financial statement finding

2017-03

The District should improve its access controls over information technology resources.

Name(s) of contact person(s): Thomas Thompson, Director Information Resources

Anticipated Completion Date: June 30, 2019

District Response: Concur

Corrective Action Planned: The District will strive to further formalize policies and procedures covering the following items and implement where applicable:

- Review user access
- Remove terminated employees' access to its IT resources
- Review contractor and other nonentity account access
- Review all shared accounts
- Manage shared accounts
- Review and monitor key activity of users
- Improve network and system password policies
- Manage entity-owned electronic devices connecting to the network
- Manage remote access
- Acceptable user agreements
- Review data center access

Having formalized written procedures will help the District to implement best IT practices and follow industry standards, as well as assist in the training of staff on implementing these policies and procedures.

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2017

Financial statement finding

2017-04

The District should improve its configuration management processes over its information technology resources

Name(s) of contact person(s): Thomas Thompson, Director Information Resources

Anticipated Completion Date: June 30, 2019

District Response: Concur

Corrective Action Planned: The District will strive to further formalize policies and procedures covering the following items and implement where applicable:

- Document changes
- Roll back changes
- Test
- Separate responsibilities for the change management process
- Configure IT resources appropriately and securely and maintain configuration settings

These policies and procedures will reflect the best IT practices and follow industry standards for configuration management. Having formalized written procedures will assist in the training of staff on implementing these policies and procedures and assist the District in the monitoring of its information technology resources.

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2017

Financial statement finding

2017-05

The District should improve its contingency planning procedures for its information technology resources

Name(s) of contact person(s): Thomas Thompson, Director Information Resources

Anticipated Completion Date: June 30, 2019

District Response: Concur

Corrective Action Planned: The District will strive to further formalize policies and procedures covering the following items and implement where applicable:

- Develop and implement a contingency plan
- Move critical operations to a separate alternative site
- Test the contingency plan
- Train staff responsible for implementing the contingency plan
- Backup systems and data

Having formalized written procedures will help support a districtwide contingency plan that implements best IT practices and follows industry standards. Having formalized written procedures will assist in the training of staff on implementing these policies and procedures. This contingency plan will be reviewed and tested annually and establish training procedures for staff responsible for implementing the plan.

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2017

Federal award findings and questioned costs

2017-101

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

Name(s) of contact person(s): Glen Snider, Director of Institutional Research
Bill Osborn, Director of Financial Aid
Jeanne Bryce, Provost; Chief Academic and Student Officer

Anticipated Completion Date: March 2018

District Response: Concur

Corrective Action Planned: In the 2017 audit, it was found that one student had no reported data to National Student Loan Data System (NSLDS). It was determined that this student was on the institutions enrollment reporting rosters to National Student Clearinghouse, but had been rejected and not forwarded to the NSLDS. The institution was not aware of this particular rejection report, but has now been trained by Clearinghouse staff to identify all files that have been rejected.

Additional procedures have already been implemented by the Institutional Research Office to ensure that all reject reports are reviewed and corrected within the required time frames. The District has also developed and implemented 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. 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.

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2017

Federal award findings and questioned costs

2017-102

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

Name(s) of contact person(s): Glen Snider, Director of Institutional Research
Bill Osborn, Director of Financial Aid

Anticipated Completion Date: June 2018

District Response: Concur

Corrective Action Planned: For several years, the institution has received a Title III Waiver for the institutional matching requirements. Due to an oversite based on changes in the application process, the institution failed to file the waiver for the 2016–17 award year. The college has already received the waiver for the 2017–18 award year and has submitted the application for the 2018–19 award year. The district will implement written policies to ensure that the waiver is filed in a timely manner and to ensure matching costs are made in the event that the waiver is not secured or received.

March 26, 2018

Jay Zsorey
Director, Financial Audit Division
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Mr. Zsorey:

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 H Welker

Heston Welker
Director of Fiscal Control and Controller

Graham County Community College District
(Eastern Arizona College)
Summary schedule of prior audit findings
Year Ended June 30, 2017

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 nos.: 2015-101 and 2016-101

Status: Not 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. Certain aspects of this issue continued to be a problem in FY2016, as ultimately the District was still not reporting the student status in a timely and accurate manner as required by the compliance requirement.

In FY2017 the audit revealed one student who was found to have no reported data to NSLDS. It was determined that this student was on EAC enrollment reporting rosters to the National Student Clearinghouse, but had been rejected by the Clearinghouse and not forwarded to NSLDS. The institution was not aware of this particular rejection report, but has now been trained by the Clearinghouse staff to identify all rejected files. Additional procedures have also been implemented by the Institutional Research department to ensure that all reject reports are reviewed and corrected within the required time frames. This issue has resulted in a finding for the reporting year FY2017 and is being addressed in the corrective action plan of finding no.: 2017-101.