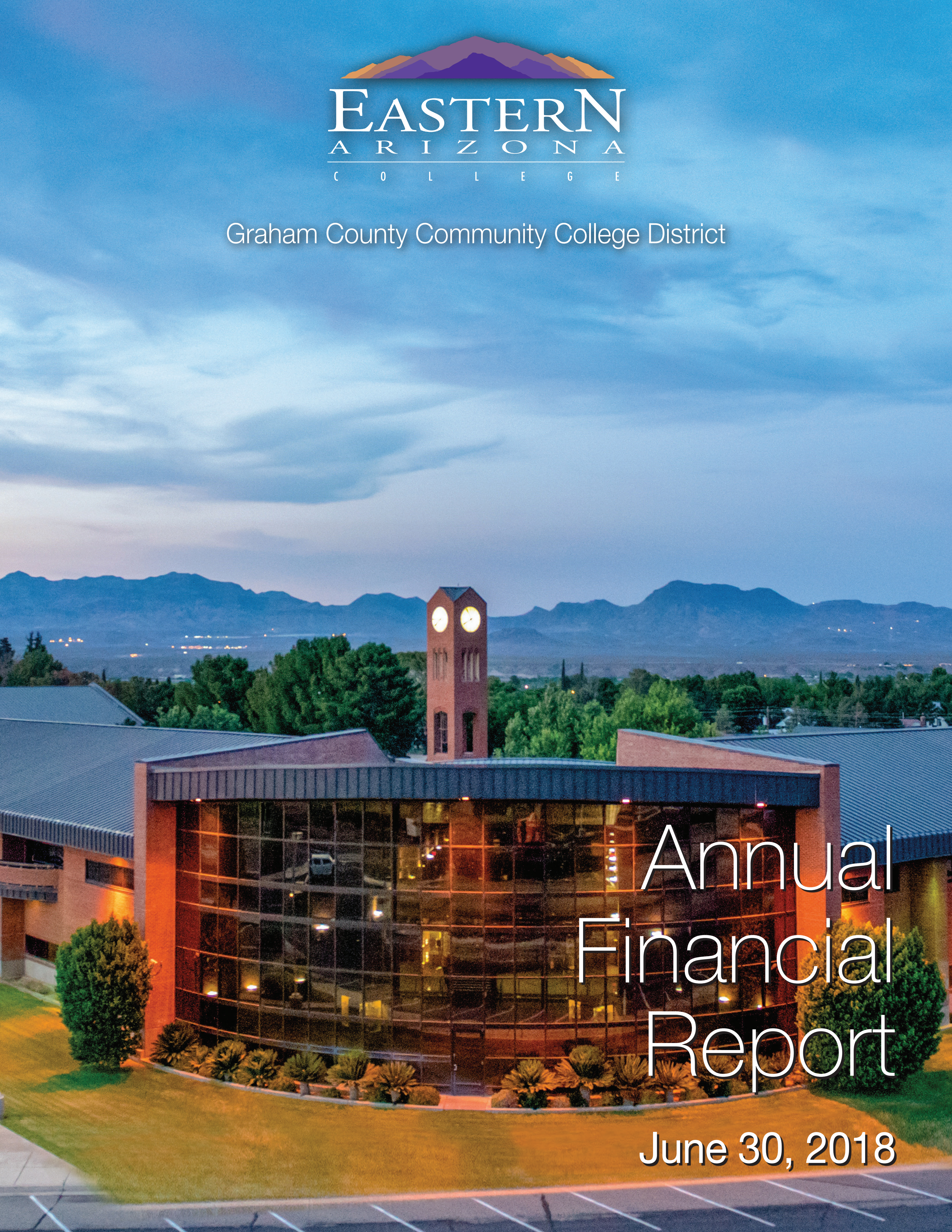

EASTERN ARIZONA COLLEGE

Graham County Community College District

# Annual Financial Report

June 30, 2018

Graham County
Community College District
(Eastern Arizona College)
Single Audit Reporting Package
June 30, 2018

# Graham County Community College District
# (Eastern Arizona College)
# Single audit reporting package
# Year ended June 30, 2018

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# Community College District
(Eastern Arizona College)
Financial Section
June 30, 2018

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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, 2018, 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.

### *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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### *Other matters*

*Required supplementary information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5 through 9, schedule of the District's proportionate share of the net pension liability on page 30, and schedule of District pension contributions on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary information—schedule of expenditures of federal awards*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

## Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2019, 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.

Lindsey Perry, CPA, CFE
Auditor General

March 26, 2019

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## Management's Discussion and Analysis

This discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2018. Please read it in conjunction with the District's basic 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, 2018. 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, 2018. 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, 2018. 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 presented below.

## Condensed Schedule of Net Position
## As of June 30, 2018 and June 30, 2017

| | 2018 | 2017 | % Change |
|---|---|---|---|
| **Assets:** | | | |
| Current assets | $ 30,077,029 | $ 31,132,724 | -3% |
| Noncurrent assets | | | |
| Capital assets, net | 36,201,853 | 37,731,204 | -4% |
| **Total assets** | 66,278,882 | 68,863,928 | -4% |
| Deferred Outflows of Resources | 3,799,056 | 6,207,838 | -39% |
| **Liabilities:** | | | |
| Other liabilities | 2,782,311 | 2,903,208 | -4% |
| Long-term liabilities | 33,108,519 | 35,584,449 | -7% |
| **Total liabilities** | 35,890,830 | 38,487,657 | -7% |
| Deferred Inflows of Resources | 2,891,342 | 4,089,573 | -29% |
| **Net Position:** | | | |
| Net investment in capital assets | 36,201,853 | 37,731,204 | -4% |
| Restricted net position | 1,766,203 | 1,337,376 | 32% |
| Unrestricted net position | (6,672,290) | (6,574,044) | 1% |
| **Total net position** | $ 31,295,766 | $ 32,494,536 | -4% |

## Financial Highlights and Analysis

Statement of Net Position:

The total net position for Graham County Community College District decreased by $1,198,770, or 4%, from the prior fiscal year due to the District's expenses exceeding revenues. As a result, the District's total assets decreased by $2,585,046 or 4%, and total liabilities decreased by $2,596,827, or 7%. The decrease to net position was also affected by a decrease in deferred outflows, as well as a decrease in deferred inflows of resources, as discussed below.

The District's current assets decreased by $1,055,695, or 3%, from the prior year. This decline was due to a decrease in receivables of $956,506, or 26% and a reduction in cash and investments of $103,124, or 0.4%. The reduction in cash and investments improved from the trend of the prior three years where cash and investments decreased 12% in 2017, 14% in 2016, and 9% in 2015. The improved decline in cash and investments was partially due to a decrease in receivables of $956,506, as well as increases in payroll and employee benefits of $120,403, compensated absences payable of $144,132, and in deposits held in custody for others of $258,742. While the strategic cash position of the District is healthy, and has allowed it to cope with these reductions in cash, there is continued acknowledgement of a need to find ways to increase revenues and reduce expenses to improve this trend.

The majority of the decrease in receivables as discussed above is attributed to a decrease in government grants and contracts receivables of $928,361, a 30% decrease. This decrease was primarily due to a decrease of receivables due from Gila County Provisional District contract of $732,746. There were also decreases in receivables of the following grants: Trade Adjustment Assistance Community College and Career Training grant of $33,249, the Pell Grant of $42,520, the Career and Technical Education – Basic Grant of $20,989, and the Gear Up Grant of $119,200. There were also other grants and contracts with nominal receivable changes.

Deferred outflows of resources decreased by $2,408,782, or 39% due to a decrease in the net difference between projected and actual earnings on pension plan investments and changes in assumptions. 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 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 decreased by 7% with other liabilities decreasing by 4%, and long-term liabilities decreasing by 7%. The decrease of 4% in other liabilities, or $120,897, is mostly attributed to decreasing insurance claim payable of $392,066, accounts payable of $83,671, and unearned revenues by $24,305. These decreases were offset by an increase in deposits held in custody for others of $258,742 and an increase in accrued employee benefits of $120,403.

The 7% decrease in long-term liabilities amounted to a $2,475,930 decrease. Within this category, compensated absences payable increased by $144,132, while the institution's net pension liability with ASRS decreased by $2,620,062, or 8%.

Deferred inflows of resources decreased by $1,198,231. This 29% decrease is a result of differences between the expected and actual pension experience and changes of assumptions or other inputs as of June 30, 2017.

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, 2018 and 2017

| Operating revenues: | 2018 | 2017 | % Change |
|---|---|---|---|
| Tuition and fees, net of scholarship allowances | $ 3,328,605 | $ 3,300,531 | 1% |
| Government contracts | 5,650,710 | 5,545,982 | 2% |
| Other | 907,238 | 869,216 | 4% |
| Total operating revenues | 9,886,553 | 9,715,729 | 2% |
| | | | |
| Nonoperating revenues: | | | |
| Property taxes | 6,046,161 | 5,783,092 | 5% |
| State appropriations | 17,925,900 | 17,540,700 | 2% |
| Government grants | 7,439,906 | 8,066,856 | -8% |
| Other | 1,002,595 | 735,816 | 36% |
| Total nonoperating revenues | 32,414,562 | 32,126,464 | 1% |
| | | | |
| Total revenues | 42,301,115 | 41,842,193 | 1% |
| | | | |
| Operating expenses: | | | |
| Instruction | 16,901,701 | 17,222,694 | -2% |
| Academic support | 768,007 | 797,488 | -4% |
| Student services | 6,243,022 | 6,231,502 | 0% |
| Institutional support | 7,884,143 | 8,034,024 | -2% |
| Operation and maintenance of plant | 3,951,599 | 4,061,292 | -3% |
| Scholarships | 2,946,076 | 3,014,105 | -2% |
| Auxiliary enterprises | 2,600,100 | 2,478,117 | 5% |
| Depreciation | 2,205,238 | 2,283,563 | -3% |
| Total operating expenses | 43,499,886 | 44,122,785 | -1% |
| | | | |
| Decrease in net position | (1,198,770) | (2,280,592) | -47% |
| Net position, beginning of year | 32,494,536 | 34,775,128 | -7% |
| Net position, end of year | $ 31,295,766 | $ 32,494,536 | -4% |

## Statement of Revenues, Expenses, and Changes in Net Position

Graham County Community College District has five major sources of revenue that account for 95% of all revenues. These are state appropriations (42%), government grants (18%), property taxes (14%), government contracts (13%), and tuition and fees (8%).

Total revenue for the District increased by 1%, or $458,922. Operating revenues were up 2%, or $170,824, due primarily to an increase in government contracts of $104,728. The remaining increase was due to small increases in tuition and fees and other revenue, totaling $66,096, or 2%.

Nonoperating revenues increased by 1%, or $288,098 due to an increase of property taxes of $263,069, state appropriations of $385,200, and other revenue of $266,779. These increases were offset by a decrease in government grants of $626,950, or 8%. The decrease in government grants is attributed mostly to the expiration of the TAACCCT grant by $554,983 and a decrease in the Career and Technical Education Basic Grant of $56,467. These decreases were offset by an increase in the GEAR UP grant of $81,494. The remaining difference in this category was due to small changes in the remaining grants.

Total operating expenses decreased by $622,900, or 1%. This reflects a $320,993 decrease in instruction, $29,481 decrease in academic support, $149,881 decrease in institutional support, $109,693 decrease in operations and maintenance, and an increase in auxiliary enterprises of $121,983. Aside from depreciation, the other areas experienced less than a 3% change. The decrease in operating expenses was mostly due to the changes in estimated net pension liability that reduced the pension expense allocated to the different operating expense areas.

## Capital Assets Administration

As of June 30, 2018, the District's capital assets, net of accumulated depreciation, totaled $36.2 million, a net decrease of $1,529,351. The District had no major construction projects during the year. 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 years' 2017 and 2018 slight increases, State aid to community colleges has been reduced every year for the last several years. Although there have been slight increases in state aid in the last 2 years, it continues to be less than it was 3 years ago. In March 2018, the Arizona State Legislature extended Proposition 301 funding for another 20 years through Senate Bill 1390. However, Proposition 301 funding only accounts for a portion of state aid received, and the general trend of declining aid continues to result in an uncertain outlook for future revenues. 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, the District increased tuition by $5 per credit hour in fiscal year 2019, but will not increase tuition for the fiscal year 2020. Despite the 2019 increase, the District's tuition level will still be among the lowest in the state, while still providing a valuable, student-centered higher education to prepare individuals to thrive.

# Graham County Community College District
## (Eastern Arizona College)
## Statement of Net Position – Primary Government
## June 30, 2018

| | | Business-Type Activities |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 27,329,196 |
| Receivables (net of allowance for uncollectibles): | | |
| Property taxes | | 343,704 |
| Government grants and contracts | | 2,177,414 |
| Other | | 209,705 |
| Inventories | | 17,010 |
| Total current assets | | 30,077,029 |
| Noncurrent assets: | | |
| Capital assets, not being depreciated | | 7,720,690 |
| Capital assets, being depreciated, net | | 28,481,163 |
| Total noncurrent assets | | 36,201,853 |
| Total assets | | 66,278,882 |
| **Deferred Outflows of Resources** | | |
| Deferred outflows related to pensions | | 3,799,056 |
| Total deferred outflows of resources | | 3,799,056 |
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable | | 235,890 |
| Accrued payroll and employee benefits | | 549,084 |
| Insurance claims payable | | 1,465,532 |
| Deposits held in custody for others | | 521,566 |
| Unearned revenues | | 10,239 |
| Current portion of compensated absences payable | | 809,277 |
| Total current liabilities | | 3,591,588 |
| Noncurrent liabilities: | | |
| Compensated absences payable | | 1,693,046 |
| Net pension liability | | 30,606,196 |
| Total noncurrent liabilities | | 32,299,242 |
| Total liabilities | | 35,890,830 |
| **Deferred Inflows of Resources** | | |
| Deferred inflows related to pensions | | 2,891,342 |
| Total deferred inflows of resources | | 2,891,342 |
| **Net Position** | | |
| Net investment in capital assets | | 36,201,853 |
| Restricted: | | |
| Expendable for workforce development | | 1,766,203 |
| Unrestricted (deficit) | | (6,672,290) |
| Total net position | $ | 31,295,766 |

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Financial Position—Component Unit
June 30, 2018

| | | Eastern Arizona College Foundation |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 585,313 |
| Investments | | 7,497,106 |
| Property and equipment, net | | 86,325 |
| Museum collection | | 221,075 |
| Total assets | | 8,389,819 |
| **Liabilities** | | |
| Accounts payable | | 1,000 |
| Accrued expenses | | 20,930 |
| Liability under split-interest agreements | | 39,866 |
| Total liabilities | | 61,796 |
| **Net Assets** | | |
| Unrestricted | | 2,561,185 |
| Temporarily restricted | | 5,103,902 |
| Permanently restricted | | 662,936 |
| Total net assets | | 8,328,023 |
| Total net assets and liabilities | $ | 8,389,819 |

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, 2018

| | Business-Type Activities |
|---|---|
| **Operating revenues:** | |
| Tuition and fees (net of scholarship allowances of $4,579,200) | $ 3,328,605 |
| Government contracts | 5,650,710 |
| Private contracts | 83,181 |
| Food service income (net of scholarship allowances of $716,130) | 239,336 |
| Dormitory rentals and fees (net of scholarship allowances of $403,932) | 334,671 |
| Other | 250,050 |
| Total operating revenues | 9,886,553 |
| **Operating expenses:** | |
| Educational and general: | |
| Instruction | 16,901,701 |
| Academic support | 768,007 |
| Student services | 6,243,022 |
| Institutional support | 7,884,143 |
| Operation and maintenance of plant | 3,951,599 |
| Scholarships | 2,946,076 |
| Auxiliary enterprises | 2,600,100 |
| Depreciation | 2,205,238 |
| Total operating expenses | 43,499,886 |
| Operating loss | (33,613,332) |
| **Nonoperating revenues:** | |
| Property taxes | 6,046,161 |
| State appropriations | 17,925,900 |
| Government grants | 7,439,906 |
| Share of state sales taxes | 656,895 |
| Investment earnings | 334,142 |
| Gain on disposal of capital assets | 11,558 |
| Total nonoperating revenues | 32,414,562 |
| Decrease in net position | (1,198,770) |
| Net position July 1, 2017 | 32,494,536 |
| Net position, June 30, 2018 | $ 31,295,766 |

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Activities—Component Unit
Year Ended June 30, 2018

| | Eastern Arizona College Foundation | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Revenue and Support** | | | | |
| Foundation revenue | $ 261,986 | $ - | $ - | $ 261,986 |
| Contributions | 20,689 | 1,825,532 | 1,375 | 1,847,596 |
| Investment income | 49,689 | 60,115 | | 109,804 |
| Net realized and unrealized gains on investments | 104,324 | 128,813 | - | 233,137 |
| Change in value of split-interest agreement | - | (4,619) | - | (4,619) |
| Total Revenue and Support | 436,688 | 2,009,841 | 1,375 | 2,447,904 |
| Net assets released from restrictions: | | | | |
| Satisfaction of restrictions | 262,813 | (262,813) | - | - |
| Total Revenue, Support, and Net Assets Released from Restrictions | 699,501 | 1,747,028 | 1,375 | 2,447,904 |
| **Expenses and Losses** | | | | |
| Program services: | | | | |
| Scholarship Awards | 315,428 | - | - | 315,428 |
| Supporting Activities: | | | | |
| General and administrative | 336,197 | - | - | 336,197 |
| Fundraising | 21,158 | - | - | 21,158 |
| Total Expenses and Losses | 672,783 | - | - | 672,783 |
| Change in net assets | 26,718 | 1,747,028 | 1,375 | 1,775,121 |
| Net assets at July 1, 2017 | 2,534,467 | 3,356,874 | 661,561 | 6,552,902 |
| Net assets at June 30, 2018 | $ 2,561,185 | $ 5,103,902 | $ 662,936 | $ 8,328,023 |

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2018

| | Business-Type Activities |
|---|---|
| Cash flows from operating activities: | |
| Tuition and fees | $ 3,328,605 |
| Government contracts | 6,136,846 |
| Private contracts | 83,181 |
| Food service receipts | 239,336 |
| Dormitory rentals and fees | 334,671 |
| Other receipts | 245,079 |
| Payments to suppliers and providers of goods and services | (7,809,823) |
| Payments for employee wages and benefits | (32,171,062) |
| Payments to students for scholarships | (2,938,410) |
| Net cash used for operating activities | (32,551,577) |
| Cash flows from noncapital financing activities: | |
| Property taxes | 6,079,277 |
| State appropriations | 17,925,900 |
| Government grants | 7,857,826 |
| Share of state sales taxes | 656,895 |
| Deposits held in custody for others received | 513,289 |
| Deposits held in custody for others disbursed | (254,547) |
| Net cash provided by noncapital financing activities | 32,778,640 |
| Cash flows from capital and related financing activities: | |
| Proceeds from sale of capital assets | 14,261 |
| Payments made to contractors | - |
| Purchases of capital assets | (678,590) |
| Net cash used for capital and related financing activities | (664,329) |
| Cash flows from investing activities: | |
| Interest received on investments | 334,142 |
| Net cash provided by investing activities | 334,142 |
| Net decrease in cash and cash equivalents | (103,124) |
| Cash and cash equivalents, July 1, 2017 | 27,432,320 |
| Cash and cash equivalents, June 30, 2018 | $ 27,329,196 |

(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, 2018
(Continued)

| Reconciliation of operating loss to net cash used for operating activities: | Business-Type Activities |
|---|---|
| Operating loss | $ (33,613,332) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | |
| Depreciation | 2,205,238 |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: | |
| Net pension liability | (2,620,062) |
| Deferred outflows of resources related to pensions | 2,408,782 |
| Deferred inflows of resources related to pensions | (1,198,231) |
| Accounts payable | (83,671) |
| Government grants and contracts receivable | 486,136 |
| Other receivables | (4,971) |
| Compensated absences payable | 144,132 |
| Insurance claims payable | (392,066) |
| Inventories | (3,935) |
| Accrued payroll and employee benefits | 120,403 |
| Net cash used for operating activities | $ (32,551,577) |

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, 2018, the Foundation distributed $310,201 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 District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position 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 either 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. Postemployment benefits

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 terminating employment, the District pays all unused and unforfeited vacation benefits 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, 2018, the carrying amount of the District's deposits was $3,674,614 and the bank balance was $2,436,605. The District does not have a formal policy with respect to custodial credit risk of deposits.

Investments—At June 30, 2018, the fair value of the District's share of the State Treasurer's Local Government Investment Pool 7 was $23,645,582. 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, 2018, the District's investment in the State Treasurer's Local Government Investment Pool 7 had a weighted average maturity of 34 days.

A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Position follows:

| Cash, Deposits, and Investments | Amount |
|---|---|
| Cash on Hand | $ 9,000 |
| Deposits | 3,674,614 |
| Investments | 23,645,582 |
| Total cash and cash equivalents | $ 27,329,196 |

Graham County Community College District
(Eastern Arizona College)
Notes to financial statements
June 30, 2018

## Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

| | Balance July 1, 2017 | Increases | Decreases | Balance June 30, 2018 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | 7,717,343 | - | | 7,717,343 |
| Construction in progress | 21,295 | - | (17,948) | 3,347 |
| Total capital assets not being depreciated | 7,738,638 | - | (17,948) | 7,720,690 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 26,827 | - | - | 26,827 |
| Buildings | 48,042,945 | 27,024 | - | 48,069,969 |
| Equipment | 15,008,744 | 593,276 | (145,998) | 15,456,022 |
| Improvements other than buildings | 2,848,994 | 19,240 | - | 2,868,234 |
| Library materials | 858,701 | 56,998 | (118,367) | 797,332 |
| Total capital assets being depreciated | 66,786,211 | 696,538 | (264,364) | 67,218,385 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (1,253) | (537) | - | (1,790) |
| Buildings | (23,107,457) | (1,090,945) | - | (24,198,402) |
| Equipment | (10,794,831) | (1,012,284) | 143,295 | (11,663,820) |
| Improvements other than buildings | (2,317,804) | (54,706) | - | (2,372,510) |
| Library materials | (572,300) | (46,766) | 118,366 | (500,700) |
| Total accumulated depreciation | (36,793,645) | (2,205,238) | 261,661 | (38,737,222) |
| Total capital assets being depreciated, net | 29,992,566 | (1,508,700) | (2,703) | 28,481,163 |
| Capital assets, net | $ 37,731,204 | $ (1,508,700) | $ (20,651) | $ 36,201,853 |

## Note 4 – Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2018:

| | Balance July 1, 2017 | Additions | Reductions | Balance June 30, 2018 | Due within one year |
|---|---|---|---|---|---|
| Net pension liability | $ 33,226,258 | | $ 2,620,062 | $ 30,606,196 | |
| Compensated absences payable | 2,358,191 | 1,518,700 | $ 1,374,568 | 2,502,323 | 809,277 |
| Total long-term liabilities | $ 35,584,449 | $ 1,518,700 | $ 3,994,630 | $ 33,108,519 | $ 809,277 |

## 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 $1,465,532 at June 30, 2018, 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, 2018 and 2017, are as follows:

| Medical benefits: | 2018 | 2017 |
|---|---|---|
| Claims payable, beginning of year | $ 1,857,598 | $ 1,937,187 |
| Current year actual and estimated claims | 3,264,297 | 3,109,495 |
| Less: Claims payments | 3,656,362 | 3,189,084 |
| Estimated claims payable, end of year | $ 1,465,532 | $ 1,857,598 |

## Note 6 - Pension

**Plan description -** District employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2. 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 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<br>10 years, age 62<br>5 years, age 50*<br>any years, age 65 | 30 years, age 55<br>25 years, age 60<br>10 years, age 62<br>5 years, age 50*<br>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 actuarially 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, 2018, statute required the active ASRS members to contribute at the actuarially determined rate of 11.34 percent of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 10.9 percent of the active members' annual covered payroll. In addition, the District was required by statute to contribute at the actuarially determined rate of 9.26 percent 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, 2018, were $2,086,307.

Pension liability - At June 30, 2018, the District reported a liability of $30,606,196 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2017. 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, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes 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, 2017. The District's proportion measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016 was 0.19647 percent, which was a decrease of 0.00938 from its proportion measured as of June 30, 2016.

The net pension liability measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the District's net position as a result of these changes is not known.

**Pension expense and deferred outflows/inflows of resources -** For the year ended June 30, 2018, the District recognized pension expense for ASRS of $676,796.

At June 30, 2018, 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 | $ - | $ 917,743 |
| Changes of assumptions or other inputs | 1,329,297 | 915,180 |
| Net difference between projected and actual earnings on pension plan investments | 219,731 | |
| Changes in proportion and differences between district contributions and proportionate share of contributions | 163,721 | 1,058,419 |
| District contributions subsequent to the measurement date | 2,086,307 | - |
| Total | $ 3,799,056 | $ 2,891,342 |

The $2,086,307 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, 2019. 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 | |
|---|---|
| 2019 | $ (1,577,300) |
| 2020 | 823,229 |
| 2021 | 279,512 |
| 2022 | (704,034) |

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

| | |
|---|---|
| Actuarial valuation date | June 30, 2016 |
| Actuarial roll forward date | June 30, 2017 |
| 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, 2016, 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 plan investments was determined to be 8.7 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 8.7 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 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 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 | $ 39,283,585 | $ 30,606,196 | $ 23,355,495 |

**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 $75,327 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2018.

## 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 | $ 29,211,220 |
| Contract services | 2,563,621 |
| Supplies and other services | 2,681,341 |
| Communications and utilities | 1,274,252 |
| Scholarships | 2,946,076 |
| Depreciation | 2,205,238 |
| Other | 2,618,138 |
| Total | $ 43,499,886 |

## 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 (SFAS) 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

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

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 $33,840.

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, 2018, were comprised of the following:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Corporate bonds | $ - | $ 107,767 | $ - | $ 107,767 |
| Managed investment account | | | | |
| Fixed income government securities | - | 764,554 | - | 764,554 |
| Corporate bonds | - | 650,562 | - | 650,562 |
| Fixed income mutual funds | 959,299 | - | - | 959,299 |
| Equity mutual funds | 5,014,924 | - | - | 5,014,924 |
| | 5,974,223 | 1,522,883 | - | 7,497,106 |

## C. Property and Equipment

Property and equipment at June 30, 2018, are summarized as follows:

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

There was no depreciation expense for the year ended June 30, 2018.

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

During fiscal 2015 the Foundation was the recipient of a 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, 2018, totaled $110,425 (consisting of cash and marketable securities of $2,658 and $107,767, 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 ($39,866 at June 30, 2018) 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, 2018, the Board of Directors has designated $1,887,867 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 the 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, 2018, is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 4,984,292 | $ 662,936 | $ 5,647,228 |
| Board-designated endowment funds | 1,887,867 | - | - | 1,887,867 |
| | $ 1,887,867 | $ 4,984,292 | $ 662,936 | $ 7,535,095 |

Changes in endowment net assets for the year ending June 30, 2018, are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning | $1,885,136 | $3,277,395 | $661,561 | $5,824,092 |
| Contributions | - | 1,825,531 | 1,375 | 1,826,906 |
| Investment income | 40,475 | 49,607 | - | 90,082 |
| Net unrealized gain on investments | 88,133 | 99,191 | - | 187,324 |
| Change in split-interest agreements | - | (4,619) | - | (4,619) |
| Appropriated for expenditure | (28,000) | (262,813) | - | (290,813) |
| Transfers out | (97,877) | - | - | (97,877) |
| Endowment net assets, ending | $1,887,867 | $4,984,292 | $662,936 | $7,535,095 |

## G. Restrictions on Net Assets

Restricted net assets are available for the following purposes:

| | Temporarily Restricted | Permanently Restricted |
|---|---|---|
| Scholarships | $4,993,477 | $662,936 |
| Split-interest gift annuities | 110,425 | - |
| | $5,103,902 | $662,936 |

## 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, 2018

## Arizona State Retirement System

| | Reporting Fiscal Year (Measurement Date) | | | | |
|---|---|---|---|---|---|
| | 2018 (2017) | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2014 through 2009 |
| District's proportion of the net pension liability | 0.196470% | 0.205850% | 0.203200% | 0.203913% | Information |
| District's proportionate share of the net pension liability | $ 30,606,196 | $ 33,226,258 | $ 31,650,974 | $ 30,172,192 | not available |
| District's covered payroll | $ 19,734,192 | $ 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 | 155.09% | 168.03% | 166.00% | 158.44% | |
| Plan fiduciary net position as a percentage of the total pension liability | 69.92% | 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, 2018

## Arizona State Retirement System

| | Reporting Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Statutorily required contribution | $ 2,086,307 | $ 2,064,797 | $ 2,091,140 | $ 2,033,427 | $ 1,979,071 |
| District's contributions in relation to the statutorily required contribution | 2,086,307 | 2,064,797 | 2,091,140 | 2,033,427 | 1,979,071 |
| District's contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - |
| District's covered payroll | $ 19,716,720 | $ 19,734,192 | $ 19,774,535 | $ 19,067,413 | $ 19,043,860 |
| District's contributions as a percentage of covered payroll | 10.58% | 10.46% | 10.57% | 10.66% | 10.39% |

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Statutorily required contribution | $ 1,830,603 | $ 1,534,238 | $ 1,343,843 | $ 1,225,911 | $ 1,183,115 |
| District's contributions in relation to the statutorily required contribution | 1,830,603 | 1,534,238 | 1,343,843 | 1,225,911 | 1,183,115 |
| District's contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - |
| District's covered payroll | $ 18,320,229 | $ 15,517,223 | $ 14,920,366 | $ 14,718,172 | $ 14,886,503 |
| District's contributions as a percentage of covered payroll | 9.99% | 9.89% | 9.01% | 8.33% | 7.95% |

## Supplementary Information

GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Schedule of expenditures of federal awards
Year Ended June 30, 2018

| 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, L12AC20586 | $ 25,727 |
| 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 | 327,997 |
| Institute of Museum and Library Services | | | | | |
| 45 310 | Grants to States | | Arizona State Library | 2017-0010-D-00 | 4,777 |
| National Science Foundation | | | | | |
| 47 041 | Engineering Grants | | | | 34,163 |
| 47 076 | Education and Human Resources | | Science Foundation Arizona | DUE-1400687 | 14,202 |
| 47 076 | Education and Human Resources | | Arizona Science Center | DRL - 1612555 | 16,431 |
| | Total Education and Human Resources | | | | 30,633 |
| | **Total National Science Foundation** | | | | 64,796 |
| Small Business Administration | | | | | |
| 59 037 | Small Business Development Centers | | Maricopa County Community College District | SBAHQ-17-B-0026, SBAHQ-18-B-0042 | 97,237 |
| Department of Education | | | | | |
| 84 048 | Career and Technical Education—Basic Grants to States | | Arizona Department of Education | 17FCTDBG-712241-20A, 18FCTDBG-812241-20A | 217,093 |
| 84 334 | Gaining Early Awareness and Readiness for Undergraduate Programs | | | | 1,111,009 |
| 84 007 | Federal Supplemental Educational Opportunity Grants | Student Financial Assistance Cluster | | | 103,578 |
| 84 033 | Federal Work-Study Program | Student Financial Assistance Cluster | | | 241,527 |
| 84 063 | Federal Pell Grant Program | Student Financial Assistance Cluster | | | 5,160,646 |
| | *Total Student Financial Assistance Cluster* | | | | 5,505,751 |
| | Total Department of Education | | | | 6,833,853 |
| | Total expenditures | | | | $ 7,354,387 |

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, 2018

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, 2018. 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 2018 *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.

Graham County
Community College District
(Eastern Arizona College)
Single Audit Section
June 30, 2018

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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, 2018, 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 26, 2019. 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 did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2018-02 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2018-01 to be a significant deficiency.

## 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.

Lindsey Perry, CPA, CFE
Auditor General

March 26, 2019

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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, 2018. 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 its major federal programs for the year ended June 30, 2018.

### *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 2018-101. Our opinion on the 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 did identify a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-101, that we consider to be a significant deficiency.

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

## Graham County Community College District's response to finding

Graham County Community College District's response to the finding identified in our audit is presented in its corrective action plan at the end of this report. The District's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on it.

Lindsey Perry, CPA, CFE
Auditor General

March 26, 2019

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## 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 weakness identified? | **Yes** |
| Significant deficiency identified? | **Yes** |
| **Noncompliance material to the financial statements noted?** | **No** |

### Federal awards

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

**Identification of major programs**

| CFDA number | Name of federal program or cluster |
|---|---|
| | 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? | No |

## 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

## 2018-01

### Managing risk

**Condition and context—**The District's process for managing its risks did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls.

**Criteria—**The District's process of managing risks should address the risk of unauthorized access and use, modification, or loss of sensitive information.

**Effect—**The District's administration and IT management may put the District's operations and IT systems and data at unintended and unnecessary risk.

**Cause—**The District did not have a process to properly identify, classify, and inventory sensitive information.

**Recommendation—**The District should identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. It also should plan for where resources should be allocated and where critical controls should be implemented. To help ensure it has effective entity-wide policies and procedures to achieve these objectives, the District should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. Responsible administrative officials and management over finance, IT, and other entity functions should be asked for input in the District's process for managing risk. Part of the process is to evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the District holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.

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 2017-01.

## 2018-02

### Information technology (IT) controls—access, configuration and change management, and security

**Condition and context—**The District's control procedures were not sufficiently designed, documented, and implemented to respond to risks associated with its IT systems and data. The District lacked adequate procedures over the following:

- **Restricting access to its IT systems and data—**Procedures did not consistently help prevent or detect unauthorized or inappropriate access.
- **Configuring systems securely and managing system changes—**Procedures did not ensure IT systems were securely configured and all changes were adequately managed.

- **Securing systems and data**—IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.

**Criteria**—The District should have effective internal controls to protect its IT systems and help ensure the integrity and accuracy of the data it maintains:

- **Logical and physical access controls**—Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, key systems and data access is monitored and reviewed, and physical access to its system infrastructure is protected.
- **Well-defined documented configuration management process**—Ensures the District's IT systems are configured securely and the changes to the systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the system security or operations. Separating responsibilities is an important control for system changes; the same person who has authority to make system changes should not put the change into production. If those responsibilities cannot be separated, a post-implementation review should be performed to ensure the change was implemented as designed and approved.
- **IT security internal control policies and procedures**—Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.

**Effect**—There is an increased risk that the District may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and the loss of confidentiality and integrity of systems and data. It also increases the District's risk of not being able to effectively continue daily operations and completely and accurately recover vital IT systems and data in the event of a disaster or system interruption.

**Cause**—The District has not fully developed and evaluated all of its policies and procedures over IT controls. As a result, its procedures lack critical elements to ensure they are comprehensive, effective, and consistently applied.

**Recommendation**—To help ensure the District has effective policies and procedures over its IT systems and data, the District should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. To help achieve these control objectives, the District should develop, document, and implement control procedures in each IT control area described below:

**Access**

- Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
- Remove terminated employees' access to IT systems and data.
- Review all other account access to ensure it remains appropriate and necessary.
- Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
- Enhance authentication requirements for IT systems.
- Protect IT systems and data with session time-outs after defined period of inactivity.
- Adopt and enforce an official employee acceptable-use agreement that addresses protecting confidential and sensitive information and consequences for sharing access or inappropriately accessing data.
- Manage employee-owned and entity-owned electronic devices connecting to the District's systems and data.

- Manage remote access to the District’s systems and data.

**Configuration and change management**

- Review proposed changes for security impact.
- Document changes, testing procedures and results, change approvals, and post-change review.
- Test changes prior to implementation.
- Configure IT resources appropriately and securely.

**Security**

- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
- Prepare and implement a security-incident-response plan clearly stating how to report and handle incidents.
- Provide all employees ongoing training on IT security risks and their responsibilities to ensure systems and data are protected.
- Perform IT vulnerability scans and remediate vulnerabilities in accordance with a remediation plan.
- Identify, evaluate, and apply patches in a timely manner.
- Secure unsupported software.

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 2017-02 (security), 2017-03 (access controls), and 2017-04 (configuration and change management).

## Federal award findings and questioned costs

### 2018-101

| | |
|---|---|
| **Cluster name:** | **Student Financial Assistance Cluster** |
| **CFDA numbers and names:** | 84.007 **Federal Supplemental Educational Opportunity Grants**<br>84.033 **Federal Work-Study Program**<br>84.063 **Federal Pell Grant Program** |
| **Award numbers and years:** | P007A160114; P033A160114; P063P161064<br><br>July 1, 2017 through June 30, 2018 |
| **Federal agency:** | **U.S. Department of Education** |
| **Compliance requirement:** | Special tests and provisions |
| **Questioned costs:** | None |

**Condition and context—**The District did not always accurately report student enrollment status changes to the National Student Loan Data System (NSLDS) within the required time frames. Specifically, for 7 of 40 students tested, the District did not correctly report the student graduated to NSLDS within 30 days or include the correct change in its response to an enrollment reporting roster file within 60 days.

**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 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. Also, the District must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and the award terms (2 CFR §200.303).

**Effect—**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. Although the District did not report the student enrollment statuses within the required time period for these 7 students tested, the student enrollment status changes did not require the students to repay grant monies.

**Cause—**Because the District lacked effective written procedures, the District's instructors were not always aware they were required to and did not always update a student's change in enrollment status and/or grades in a timely manner in the District's student information system which sometimes caused the District to report inaccurate student enrollment statuses and to report statuses late to the NSLDS.

**Recommendation—**The District should develop and implement internal control procedures to ensure:

- Instructors are properly updating enrollment status and grades in the student information system to ensure the District can identify all student status changes that are required to be reported to the NSLDS.
- District reports the status changes to the NSLDS within 30 days or include 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 2017-101.

Date: March 7, 2019

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ  85018

Dear Ms. Perry:

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 our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Wayne Layton
Director of Fiscal Control and Controller

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2018

Financial statement finding
2018-01
Managing Risk

Name(s) of contact person(s): Thomas Thompson, Chief Information Officer

Anticipated Completion Date: December 31, 2019

District Response: Concur

Corrective Action Planned: The District will identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. It will also evaluate and plan for where resources should be allocated and where critical controls should be implemented. As part of this process, the administration and responsible parties will evaluate and manage risks by identifying, classifying, and inventorying the information the District holds to assess where stronger access and security controls are needed to protect the system and data.

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2018

Financial statement finding
2018-02
Information Technology (IT) controls – access, configuration and change management, and security

Name(s) of contact person(s): Thomas Thompson, Chief Information Officer

Anticipated Completion Date: December 31, 2019

District Response: Concur

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

- Restricting access to IT systems and data
- Configuring systems securely and managing system changes
- Securing systems and data

Having formalized written policies and 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. These policies and procedures will also assist in maintaining the integrity of our system and data.

Graham County Community College District
(Eastern Arizona College)
Corrective action plan
Year Ended June 30, 2018

Federal award findings and questioned costs
2018-101

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): Bill Osborn, Director of Financial Aid
Jeanne Bryce, Vice President of Academics and Student Affairs

Anticipated Completion Date: June 2019

District Response: Concur

Corrective Action Planned: Additional procedures will be implemented to ensure that all 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.

March 7, 2019

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

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,

Wayne Layton
Director of Fiscal Control and Controller

Graham County Community College District
(Eastern Arizona College)
Summary schedule of prior audit findings
Year Ended June 30, 2018

## Status of financial statement findings

The District should improve its risk-assessment process to include information technology security.
Finding no.: 2017-01
Status: Partially Corrected

The District continues in its efforts to implement the items contained in the prior year's corrective action plan. The District is making progress in these efforts. However, requirements of operations and system maintenance for our existing system have not allowed for budget and time to fully implement the plan in its entirety.

The District should improve security over its information technology resources.
Finding no.: 2017-02
Status: Partially Corrected

The District continues in its efforts to implement the items contained in the prior year's corrective action plan. The District is making progress in these efforts. However, requirements of operations and system maintenance for our existing system have not allowed for budget and time to fully implement the plan in its entirety.

The District should improve access controls over its information technology resources.
Finding no.: 2017-03
Status: Partially Corrected

The District continues in its efforts to implement the items contained in the prior year's corrective action plan. The District is making progress in these efforts. However, requirements of operations and system maintenance for our existing system have not allowed for budget and time to fully implement the plan in its entirety.

The District should improve its configuration management processes over its information technology resources.
Finding no.: 2017-04
Status: Not Corrected

The District continues in its efforts to implement the items contained in the prior year's corrective action plan. The District is making progress in these efforts. However, requirements of operations and system maintenance for our existing system have not allowed for budget and time to fully implement the plan in its entirety.

The District should improve its contingency planning procedures for its information technology resources.
Finding no.: 2017-05
Status: Fully Corrected

Graham County Community College District
(Eastern Arizona College)
Summary schedule of prior audit findings
Year Ended June 30, 2018

## Status of federal award findings and questioned costs

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

Finding no.: 2017-101, 2016-101, and 2015-101

Status: Not Corrected

In reporting year FY2015 and continued through FY2017, 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. While certain aspects of this issue have been corrected through additional programming and training, new and additional circumstances and variables arise which were not considered during the programming and training in prior years. The institution continues to receive training to understand and fully utilize the rejection and error reports available by the Clearinghouse in an effort to verify and correct the accuracy of information reported to NSLDS. The institution continues to develop processes and procedures in an effort to address all situations and to ensure reports are viewed and corrections made in a timely manner.

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

Finding no.: 2017-102

Status: Fully corrected