



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statements and Report on Internal Control and
on Compliance

Gila County Provisional Community College District

(Gila Community College)

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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Gila County Provisional Community College District
(Gila Community College)
Financial Statements and Report on Internal Control and on Compliance
Year Ended June 30, 2006

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Gila County Provisional Community College District

We have audited the accompanying financial statements of the governmental activities and General Fund of Gila County Provisional Community College District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The District did not maintain a complete capital assets listing to support the capital assets balance on the Statement of Net Assets at June 30, 2006. As a result, the District's records did not permit us to apply auditing procedures sufficient to determine whether the capital assets balance of \$177,205 was accurately reported in the June 30, 2006, financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain a complete capital assets listing and supporting records, the financial statements referred to in the first paragraph above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of Gila County Provisional Community College District as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through iv and the Budgetary Comparison Schedule—General Fund on pages 9 and 10 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

July 15, 2011



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- **Payson Campus:** PO Box 359 Payson, AZ 85547 Phone: (928) 468-8039 Fax: (928) 468- 8043
- **San Carlos Campus:** PO Box 152 San Carlos, AZ 85550 Phone: (928) 475-5981 Fax: (928) 475-5983

Management's Discussion and Analysis

Our discussion and analysis of the District's financial performance provides an overview of the District's financial position and activities for the year ended June 30, 2006. Please read it in conjunction with the financial statements, which immediately follow.

Basic Financial Statements

The District's annual financial statements were prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP). The District is a special-purpose governmental unit governed by a separately elected governing body. The financial statements consist of the following:

The government-wide and fund financial statements are combined, with a reconciliation shown between them.

The Governmental Fund Balance Sheet/Statement of Net Assets and Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities combines information about the reporting government as a whole and fund statements to report the General Fund's financial position and the results of its operations. Government-wide financial statements are designed to provide readers with a broad overview of the District's finances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain district functions or activities.

The General Fund is the District's general operating fund. It is used to account for all of the District's financial resources.

Financial Highlights and Analysis

In accordance with State Statute, the Gila County Provisional Community College District does not offer degrees, certificates, or diplomas. As a result, the District has contracted with accredited districts to provide educational programs and services.

The District entered into an intergovernmental agreement with Pima County Community College District (Pima) beginning July 1, 2004, for educational services. The agreement established that Pima will provide certification of faculty; admission and registration of students; payroll services for Pima employees; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information

technology services; collection of all tuition and fees for credit courses; cashiering for Pima-related functions; access to information relative to enrollments; and payment to adjunct faculty. This agreement expired on July 31, 2005.

The District also entered into an intergovernmental agreement with Gila County on July 1, 2004. The agreement established that Gila County will provide facilities for college classes, staff to administer community college programs, payroll services, and human resource services. This agreement expired on June 30, 2005, but some services were provided through July 31, 2005, during the transition to the intergovernmental agreement with Graham County Community College District, also referred to as Eastern Arizona College.

The District and Eastern Arizona College (EAC) entered into an intergovernmental agreement and operating agreement under which EAC provides educational programs and services to the District from July 1, 2005 through June 30, 2015. The agreement established that EAC will provide certification of faculty; admission and registration of students; payroll services for EAC employees; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; collection of all tuition and fees for credit courses; cashiering for EAC-related functions; access to information relative to enrollments; and payment to adjunct faculty.

The District exercises primary tax levy authority for the generation of funds to pay for contract and other operating expenses, and continues to act in a financially conservative manner during the budgetary process, looking to maintain a secure financial future for the institution.

Condensed Financial Information

The condensed schedule of Net Assets below reflects the District's assets, liabilities, and net assets and the condensed schedule of Changes in Net Assets presents the District's operations. Over time, increases or decreases in net assets may serve as a useful indicator of whether the District's financial position is improving or regressing.

*Net Assets
As of June 30, 2006 and 2005*

Assets:	<u>2006</u>	<u>2005</u>	<u>Increase/Decrease</u>
Current assets	\$2,583,047	\$1,418,114	\$1,164,933
Noncurrent assets:			
Capital assets, net of accumulated depreciation	<u>177,205</u>	<u>223,258</u>	<u>(46,053)</u>
Total assets	<u>2,760,252</u>	<u>1,641,372</u>	<u>1,118,880</u>
Liabilities:			
Current liabilities	<u>1,216,920</u>	<u>642,704</u>	<u>574,216</u>
Total liabilities	<u>1,216,920</u>	<u>642,704</u>	<u>574,216</u>
Net Assets:			
Invested in capital assets, net of related debt	177,205	223,258	(46,053)
Unrestricted	<u>1,366,127</u>	<u>775,410</u>	<u>590,717</u>
Total net assets	<u>\$1,543,332</u>	<u>\$ 998,668</u>	<u>\$ 544,664</u>

*Changes in Net Assets
For the Years Ended June 30, 2006 and 2005*

Expenses:	<u>2006</u>	<u>2005</u>	<u>Increase/Decrease</u>
Education	<u>\$2,610,177</u>	<u>\$2,741,971</u>	<u>\$(131,794)</u>
Total expenses	<u>2,610,177</u>	<u>2,741,971</u>	<u>(131,794)</u>
Revenues:			
Program revenues:			
Charges for services	-	149,653	(149,653)
Operating grants and contributions	<u>42,080</u>	<u>73,328</u>	<u>(31,248)</u>
Total program revenues	<u>42,080</u>	<u>222,981</u>	<u>(180,901)</u>
General revenues:			
Property taxes	2,453,990	2,365,449	88,541
State appropriations	335,700	325,000	10,700
Gila County allocation	250,000	250,000	-
Investment earnings	61,222	14,652	46,570
Miscellaneous	<u>11,849</u>	<u>147,294</u>	<u>(135,445)</u>
Total general revenues	<u>3,112,761</u>	<u>3,102,395</u>	<u>10,366</u>
Total revenues	<u>3,154,841</u>	<u>3,325,376</u>	<u>(170,535)</u>
Change in net assets	544,664	583,405	<u>\$ (38,741)</u>
Net assets:			
Beginning of the year	<u>998,668</u>	<u>415,263</u>	
End of the year	<u>\$1,543,332</u>	<u>\$ 998,668</u>	

Significant Variances

For the fiscal year ended June 30, 2006, the third year of operations for Gila County Provisional Community College District, the financial data presented above is for analysis and comparison of significant variances relative to assets, liabilities, net assets, revenues, and expenditures.

- Total assets at June 30, 2006, were \$2,760,252 consisting primarily of cash and investments of \$2,532,005 and capital assets, net of depreciation, of \$177,205. Cash and investments increased \$1,238,520 primarily because education expenses decreased as a result of the intergovernmental agreement with EAC and due to a larger amount due at year-end to EAC for educational services provided during the year.
- The total liabilities, representing current obligations for general expenditures, increased by \$574,216 to \$1,216,920. The reasons for this increase were additional receipts, in error, of Arizona Workforce Development Funds of \$201,967 and an increase of \$372,249 in the amount due on the intergovernmental educational programs and services contract at year-end.
- There was an increase of \$544,664 in net assets the year ended June 30, 2006, the third year of operation for the District, indicating the District's financial position had improved.
- Program revenues decreased by \$180,901 in 2006 because charges for services reported in the prior year consisted of noncredit tuition and fees that are no longer collected by the District under the educational services and operating agreements with EAC, effective July 1, 2005. In addition, federal and state grants decreased because EAC obtained this funding directly from grantors to carry out the educational programs that it administers on the District's behalf.

General Fund Budget

The Gila County Provisional Community College District's actual education expenditures were \$829,159 less than budgeted amounts due to management's cost-effective approach to spending. However, the expenditures for capital outlays of \$26,665 were not budgeted for. The result was that the District's actual total expenditures were \$802,494 less than budgeted amounts.

The actual program and general revenues exceeded budget by \$414,169 for the year ended June 30, 2006. For the third operating year, the revenues budget was prepared using an economical approach and the actual revenues exceeded anticipations resulting in an excess of revenues over budget. The excess revenues over budget resulted primarily from the following nonbudgeted or under-budgeted sources:

Nonbudgeted Sources	
Gila County allocation	\$250,000
Operating grants and contributions	42,080
Investment earnings	61,222
Under-budgeted Source	
Property Taxes—Gila County	49,018

Additional budgetary information can be found on pages 9 and 10 of this report.

Capital Assets

The District's total investment in capital assets, net of accumulated depreciation, is \$177,205, which is comprised of equipment and vehicles. This is a decrease of \$46,053 from the prior year-end. Capital asset activity in fiscal year 2006 consisted of one capital asset addition purchase in the amount of \$26,665 along with current year depreciation expense of \$72,718.

Current Factors Having Probable Future Financial Significance

Enrollment continues to increase at the District. The increased enrollment results in more tuition revenue that is netted against the contractual charges of EAC and increased state aid; however, current reductions in state-aid pose challenges relative to sustaining workforce development programs.

Currently, the campus buildings and real estate are owned by Gila County. The District does not have the financial capacity to own the buildings should the County deed the properties back to the District.

Request for Information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact Governing Board member Robert S. Ashford at (928) 425-8481.

Gila County Provisional Community College District
(Gila Community College)
Governmental Fund Balance Sheet/Statement of Net Assets
June 30, 2006

	<u>Balance Sheet— General Fund</u>	<u>Reconciliation (Note 4)</u>	<u>Statement of Net Assets— Governmental Activities</u>
Assets			
Current assets:			
Cash and investments	\$ 2,532,005		\$ 2,532,005
Property taxes receivable	45,542		45,542
Other receivables	<u>5,500</u>		<u>5,500</u>
Total current assets	<u>2,583,047</u>		<u>2,583,047</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation		<u>\$ 177,205</u>	<u>177,205</u>
Total noncurrent assets		<u>177,205</u>	<u>177,205</u>
Total assets	<u>\$ 2,583,047</u>	<u>177,205</u>	<u>2,760,252</u>
Current liabilities			
Due to other governments	\$ 1,216,920		1,216,920
Deferred revenue	<u>31,793</u>	<u>(31,793)</u>	<u>1,216,920</u>
Total liabilities	<u>1,248,713</u>	<u>(31,793)</u>	<u>1,216,920</u>
Fund balance/Net assets			
Fund balance:			
Unreserved	<u>1,334,334</u>	<u>(1,334,334)</u>	
Total fund balance	<u>1,334,334</u>	<u>(1,334,334)</u>	
Total liabilities and fund balance	<u>\$ 2,583,047</u>	<u>(1,366,127)</u>	
Net assets:			
Invested in capital assets, net of related debt		177,205	177,205
Unrestricted		<u>1,366,127</u>	<u>1,366,127</u>
Total net assets		<u>\$ 1,543,332</u>	<u>\$ 1,543,332</u>

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Statement of Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance (R/E)/Statement of Activities
Year Ended June 30, 2006

	<u>R/E— General Fund</u>	<u>Reconciliation (Note 4)</u>	<u>Statement of Activities— Governmental Activities</u>
Expenditures/Expenses:			
Education	\$ 2,537,459	\$ 72,718	\$ 2,610,177
Capital outlay	26,665	(26,665)	
Total expenditures/expenses	<u>2,564,124</u>	<u>46,053</u>	<u>2,610,177</u>
Program revenues:			
Operating grants and contributions	<u>42,080</u>		<u>42,080</u>
Total program revenues	<u>42,080</u>		<u>42,080</u>
Net expenses	<u>2,522,044</u>	<u>46,053</u>	<u>2,568,097</u>
General revenues:			
Property taxes	2,486,974	(32,984)	2,453,990
State appropriations	335,700		335,700
Gila County allocation	250,000		250,000
Investment earnings	61,222		61,222
Other	<u>11,849</u>		<u>11,849</u>
Total general revenues	<u>3,145,745</u>	<u>(32,984)</u>	<u>3,112,761</u>
Net change in fund balance	623,701	(623,701)	
Change in net assets		544,664	544,664
Fund balance/Net assets:			
July 1, 2005	<u>710,633</u>	<u>288,035</u>	<u>998,668</u>
June 30, 2006	<u>\$ 1,334,334</u>	<u>\$ 208,998</u>	<u>\$ 1,543,332</u>

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Gila County Provisional Community College District (the District) conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

The District is a special-purpose governmental unit that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District (the primary government).

District personnel are not directly employed by the District. The staff is directly employed by Gila County, Pima County Community College District (Pima College), or Graham County Community College District (Eastern Arizona College). The cost of the personnel compensation and related benefits is paid to Gila County, Pima College, or Eastern Arizona College through their respective intergovernmental agreements.

Because the District is a provisional district, it cannot offer degrees, certificates, or diplomas and therefore contracts with an accredited district. Educational programs and services are provided through intergovernmental agreements as follows:

The District entered into an intergovernmental agreement with Gila County on July 1, 2004. The agreement established that Gila County will provide facilities for college classes, staff to administer community college programs, payroll services, and human resources services. In addition, Gila County agreed to forward to the District, on a monthly basis, one-twelfth of the total amount of the primary tax collected for community college services after subtracting the expenses for salaries and services including an administrative fee of 10 percent, and provide a monthly financial report. The agreement expired on June 30, 2005. However, some services were provided through July 31, 2005, during the transition to the intergovernmental agreement with Eastern Arizona College (EAC).

The District entered into an intergovernmental agreement with Pima College beginning July 1, 2004 through July 31, 2005, for educational services. The agreement established that Pima College will provide certification of faculty; admission and registration of students; payroll services for Pima College's employees; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; collection of all tuition and fees for credit courses; cashiering for functions related to Pima College; access to information relative to enrollments; and payment to adjunct faculty. The total fixed cost of the contract was \$1,214,407. There was also a variable portion, net of tuition and fees, estimated at \$98,466. This agreement expired on July 31, 2005.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2006

The District and EAC entered into an intergovernmental agreement and operating agreement under which EAC provides educational programs and services to the District from July 1, 2005 through June 30, 2015. The agreement established that EAC will provide certification of faculty; admission and registration of students; payroll services for EAC employees; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; collection of all tuition and fees for credit courses; cashiering for EAC-related functions; access to information relative to enrollments; and payment to adjunct faculty. In addition, EAC charges the District an administrative fee of twenty-five percent of the total District disbursements processed by EAC.

B. Basis of Presentation

The basic financial statements include the Governmental Fund Balance Sheet/Statement of Net Assets and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities.

The Governmental Fund Balance Sheet/Statement of Net Assets provides information about the District's assets, liabilities, and net assets at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy district obligations. Invested in capital assets, net of related debt, represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

The Statement of Governmental Funds Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities provides information about the District's financial activities during the year. Revenues are classified as either program or general. Generally, revenues the District generates for instruction and student services are considered to be program revenues. Other revenues, such as property taxes and investment earnings, are not generated from operations and are considered to be general revenues.

C. Basis of Accounting

The fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2006

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized in the year in which they are levied. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District eliminates all internal activity. It is the District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

D. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand and cash and investments held by the Gila County Treasurer. All investments are stated at fair value.

E. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Equipment	\$1,000	Straight-line	5 years
Vehicles	\$1,000	Straight-line	5 years

F. Property Tax Revenues

The County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business day in November and May. A lien assessed against real and personal property attaches on the first day of January preceding the assessment and levy.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2006

G. Investment Earnings

Investment earnings consist of interest earned on the cash and investments and net changes in the fair value of investments held by the County Treasurer.

Note 2 - Deposits and Investments

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

Deposits—At June 30, 2006, the carrying amount of the District's deposits was \$1,224,780, and the bank balance was \$1,224,937. Of this amount, \$1,124,937 was exposed to custodial credit risk since deposits that exceeded federal depository insurance coverage were uncollateralized. The District does not have a formal policy with respect to custodial credit risk for deposits.

Investments—At June 30, 2006, the District's investments consisted of the following:

Investment Type	Amount
Investment in County Treasurer's investment pool	\$1,307,225

The District's investment in the County Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments, and therefore, it is not subject to custodial credit risk. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The District does not have a formal policy regarding custodial credit risk for investments.

Credit risk—The District does not have a formal policy with respect to credit risk. At June 30, 2006, credit risk for the District's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
County Treasurer's investment pool	Unrated	Not applicable	\$1,307,225

Interest rate risk—The District does not have a formal policy regarding interest rate risk for investments. At June 30, 2006, the District had the following investments in debt securities:

Investment Type	Investment Maturities	
	Amount	Less than 1 year
County Treasurer's investment pool	\$1,307,225	\$1,307,225

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2006

A reconciliation of deposits and investments to amounts shown on the Statement of Net Assets follows:

		Balance Sheet/ Statement of Net Assets:	
Deposits and investments:		Cash and investments	\$2,532,005
Cash and deposits	\$1,224,780		
Investments	<u>1,307,225</u>		
Total	<u>\$2,532,005</u>	Total	<u>\$2,532,005</u>

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Increases	Balance June 30, 2006
Capital assets being depreciated:			
Equipment	\$1,672,473		\$1,672,473
Vehicles	<u>114,110</u>	<u>\$ 26,665</u>	<u>140,775</u>
Total capital assets being depreciated	<u>1,786,583</u>	<u>26,665</u>	<u>1,813,248</u>
Less accumulated depreciation for:			
Equipment	1,449,215	67,385	1,516,600
Vehicles	<u>114,110</u>	<u>5,333</u>	<u>119,443</u>
Total accumulated depreciation	<u>1,563,325</u>	<u>72,718</u>	<u>1,636,043</u>
Total capital assets, net of accumulated depreciation	<u>\$ 223,258</u>	<u>\$(46,053)</u>	<u>\$ 177,205</u>

Note 4 - Reconciliations

The reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets at June 30, 2006, was as follows:

Fund balance—governmental fund	\$1,334,334
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the fund.	31,793
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>177,205</u>
Net assets of governmental activities	<u>\$1,543,332</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2006

The reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities for the year ended June 30, 2006, was as follows:

Net change in fund balance—governmental fund	\$623,701
Amounts reported for governmental activities in the Statement of Activities are different because:	
Collections of revenues in the governmental fund exceeded revenues reported in the Statement of Activities.	(32,984)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	26,665
Depreciation expense	<u>(72,718)</u>
Change in net assets of governmental activities	<u>\$544,664</u>

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 carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

Gila County Provisional Community College District
(Gila Community College)
Required Supplementary Information
Budgetary Comparison Schedule—General Fund
Year Ended June 30, 2006

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Operating grants and contributions		\$ 42,080	\$ 42,080
Property taxes	\$ 2,437,956	2,486,974	49,018
State appropriations	335,700	335,700	
Gila County allocation		250,000	250,000
Investment earnings		61,222	61,222
Other		11,849	11,849
Total revenues	<u>2,773,656</u>	<u>3,187,825</u>	<u>414,169</u>
Expenditures:			
Education	3,366,618	2,537,459	829,159
Capital outlay	<u>3,366,618</u>	<u>26,665</u>	<u>(26,665)</u>
Total expenditures	<u>3,366,618</u>	<u>2,564,124</u>	<u>802,494</u>
Net change in fund balance	(592,962)	623,701	1,216,663
Fund balance:			
July 1, 2005	<u>710,633</u>	<u>710,633</u>	<u></u>
June 30, 2006	<u>\$ 117,671</u>	<u>\$ 1,334,334</u>	<u>\$ 1,216,663</u>

See accompanying note to budgetary comparison schedule.

Gila County Provisional Community College District
(Gila Community College)
Required Supplementary Information
Note to Budgetary Comparison Schedule—General Fund
June 30, 2006

Note - Budgeting and Budgetary Control

Arizona Revised Statutes require the District to prepare and adopt a budget annually. The Governing Board must approve the operating and capital outlay budgets on or before June 20. The Governing Board shall not adopt the budget if the property tax requirements of the budget, excluding amounts budgeted and levied for secondary property taxes, exceed the amounts established by statute. The budget shall contain the estimated cost of all operating, capital outlay, and debt service expenditures.



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Basic Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Governing Board of
Gila County Provisional Community College District

We have audited the financial statements of the governmental activities and General Fund of Gila County Provisional Community College District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 15, 2011. Our report was qualified as to the capital assets balance on the Statement of Net Assets. 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.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's basic financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider items 06-01, 06-02, 06-03, and 06-05 described in the accompanying summary to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 06-01, 06-02, and 06-03, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Recommendations as item 06-04.

Gila County Provisional Community College District's responses to the findings identified in our audit are presented on pages 19 through 21. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the District's Governing Board, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

July 15, 2011

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
Year Ended June 30, 2006

Financial Statement Findings

06-01

The District should have someone with the necessary accounting expertise to issue complete and accurate financial statements in a timely manner

Criteria: The District should issue accurate and timely financial statements to meet audit requirements imposed by state laws and regulations and demonstrate fiscal accountability. District management is responsible for maintaining proper accounting records and preparing the financial statements. Alternatively, if the District contracts these functions, the District is responsible for overseeing this work and evaluating whether the accounting records and financial statements are complete, accurate, and timely, and comply with generally accepted accounting principles (GAAP).

Condition and context: The District's financial statements were not issued in a timely manner since they were issued 5 years after fiscal year-end. The District did not have anyone with accounting expertise to oversee financial statement preparation, which was performed by contracted consultants, to ensure that the financial statements were complete and accurate, prepared in a timely manner, and complied with GAAP. For example, the District's records relating to federal and state grants were maintained by Eastern Arizona College (EAC), which provided educational services to the District. However, the agreements with EAC did not provide for EAC to perform recordkeeping or accounting services, and no one at the District was aware that this financial information should have been reported in the District's financial statements.

Effect: The District's financial statements were adjusted for all significant errors. Without appropriate oversight over its accounting records and the preparation of its financial statements, there is the risk that the District's financial statements could be materially misstated and that errors could go undetected. This finding is a material weakness in internal control over financial reporting.

Cause: The District has a small number of administrative staff and operates under an operating agreement with EAC, which is responsible for hiring all district employees. During fiscal year 2006, the District contracted with a consultant who maintained the accounting records and prepared adjusting journal entries before retiring in fiscal year 2008. Another contracted consultant compiled the District's financial statements using this information. However, there was no one at the District with the necessary expertise to oversee the work performed by the consultants and to ensure that the financial statements were complete and accurate, prepared in time to meet audit requirements, and complied with GAAP.

Recommendation: The District may either employ personnel or hire consultants to maintain the accounting records, prepare adjusting journal entries, and compile the financial statements. However, if the District contracts these functions to consultants, it should ensure that it provides oversight for this work by assigning someone at the District with the necessary accounting expertise to evaluate whether the records are properly maintained and adjusted, and whether the financial statements are complete and accurate, prepared in time to meet audit requirements, and presented in accordance with GAAP.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
Year Ended June 30, 2006

Furthermore, the person at the District with these oversight responsibilities should request the accounting records and other necessary supporting documentation maintained by EAC to ensure that this financial information is reported in the District's financial statements.

06-02

The District should establish internal controls over its capital assets

Criteria: The District should establish policies and procedures to properly control, safeguard, and report its capital assets.

Condition and context: The District prepared a list of its capital assets at June 30, 2006; however, the list did not contain sufficient detail to identify and locate the assets. As a result, auditors could not verify whether the list was accurate or complete. In addition, the District did not have policies and procedures to ensure that all capital assets were safeguarded, accounted for, and reported. For example, the District did not perform a physical inventory or tag and individually identify its capital assets. Also, the District did not reconcile its capital additions to capital outlay expenditures or properly evaluate equipment leases to ensure that all capital assets were recorded. Further, there was no one at the District who was responsible for controlling capital assets.

Effect: Without established policies and procedures, there is the risk that the financial statements may be materially misstated and that errors could go undetected. Additionally, capital assets are more susceptible to loss, damage, or theft without the proper controls in place. This finding is a material weakness in internal control over financial reporting.

Cause: The District did not prepare and implement policies and procedures to safeguard, account for, and report capital assets. Additionally, the District did not assign an employee to be responsible for controlling capital assets.

Recommendation: The District should establish internal controls over capital assets that include the following policies and procedures:

- Develop and implement formal policies and procedures to account for, safeguard, and report capital assets. These policies and procedures should also address capitalizing, depreciating, and disposing of capital assets.
- Assign an employee to be responsible for controlling capital assets.
- Perform a physical inventory of all capital assets each year and update the capital assets list with the results of the inventory.
- Identify each equipment item having an acquisition value exceeding the District's capitalization threshold as district property and account for it using a unique number such as a tag or serial number.
- Maintain a complete list of all capital assets that includes sufficient information to identify and locate each item.
- Reconcile current-year capital additions to current-year capital outlay expenditures to help ensure that capital assets have been added to the capital assets list.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
Year Ended June 30, 2006

- Evaluate all equipment lease agreements to determine whether the lease should be classified as an operating lease or a capital lease in accordance with GAAP and ensure that equipment leased under the terms of capital lease agreements have been included on the capital assets list.

This finding is similar to a prior-year finding.

06-03

The District needs to better monitor and oversee its educational services and operating agreements

Criteria: The District should monitor and provide oversight for its educational services and operating agreements with EAC to ensure that the services performed, financial information received, and amounts charged to the District are correct and in accordance with the agreements' terms and conditions.

Condition and context: Approximately 95 percent of the District's total expenses for the year were for contracted educational services provided by EAC. However, the District did not perform the necessary monitoring and oversight for its educational services and operating agreements that make up these expenses. In addition, the District did not review the records and documentation maintained by EAC that support the amounts billed to the District to ensure that the charges were correct and in accordance with the agreements' terms and conditions.

Effect: Without appropriate monitoring and oversight, the District may not receive services and financial information that are specified by the agreements' terms and conditions. In addition, the District could be billed for incorrect amounts. This finding is a material weakness in internal control over financial reporting.

Cause: Fiscal year 2006 was the first year that the District contracted with EAC for its educational services and operations. The District did not assign an official the responsibilities for monitoring and overseeing these agreements. Further, while the agreements allowed the District to review documentation at EAC supporting the amounts billed, the District did not perform such reviews.

Recommendation: To ensure that the District receives the services and financial information specified by the agreements' terms and conditions, the District should assign an official the responsibilities to monitor and oversee its educational services and operating agreements with EAC. In addition, the District should establish policies and procedures that require sufficient documentation from EAC to support the expenses billed to the District, and review this documentation to ensure the amounts charged are correct and in accordance with the agreements' terms and conditions.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
Year Ended June 30, 2006

06-04

The District should prepare its Annual Budgeted Expenditure Limitation Report in a timely manner

Criteria: Arizona Revised Statutes (A.R.S.) §41-1279.07(C) requires the District to submit an Annual Budgeted Expenditure Limitation Report (ABELR) to the Auditor General's Office within 4 months after fiscal year-end, or by February 28 if the Auditor General grants a 120-day extension.

Condition and context: The District failed to prepare and submit its ABELR for the year ended June 30, 2006, by the required statutory deadline of October 31, 2006.

Effect: The District could face sanctions if the District continues to not submit its ABELR by the deadline. This finding is an instance of noncompliance with A.R.S. §41-1279.07(C).

Cause: As discussed in item 06-01, internal control weaknesses in financial reporting contributed to the required report not being prepared and submitted in a timely manner.

Recommendation: The District should establish policies and procedures to ensure that it prepares and submits its Annual Budgeted Expenditure Limitation Report to the Auditor General of the State of Arizona each year by October 31, or by February 28 if a 120-day extension is granted as required by A.R.S. §41-1279.07(c).

06-05

The District should establish policies and procedures for disclosing conflicts of interest and material related party transactions

Criteria: A.R.S. §38-503 requires that the District's board members, elected officers, and employees make known any substantial interest they have in any contract, sale, purchase, or service, and refrain from voting upon or participating in any such matter. In addition, generally accepted accounting principles require the disclosure of material related party transactions in the financial statements.

Condition and context: While the District's employees, who are employees of EAC, followed EAC's policies and procedures for disclosing conflicts of interest, the District's Governing Board did not have a policy to ensure that conflicts of interest were identified and disclosed as required by A.R.S. §38-503. Further, the District did not have procedures to ensure that related party transactions are identified in the District's records and disclosed in the financial statements, if material.

Effect: There is a risk of potential noncompliance with A.R.S. §38-503. Also, the District may enter into transactions that may not be the most advantageous to the District. Further, these transactions may not be detected or disclosed. This finding is a significant deficiency in internal control over financial reporting.

Cause: The District did not have formal policies and procedures in place to ensure that all conflicts of interest and material related party transactions are identified and disclosed.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
Year Ended June 30, 2006

Recommendation: The District should establish written policies and procedures to help ensure compliance with state conflict-of-interest statutes and disclosure requirements for related party transactions in the notes to the financial statements. These may include the following:

- Require its Governing Board members who have, or whose relatives have, a direct or indirect substantial interest in any district contract for goods or services to make that interest known in the District's Governing Board meeting minutes or other records.
- Maintain a file of all conflict-of-interest disclosures submitted for public inspection and update the file annually.
- Ensure that Governing Board members and employees refrain from participating in transactions or decisions, such as contracts for goods or services, when they have a conflict of interest.

This finding is similar to a prior-year finding.

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July 1, 2011

Ms. Debbie Davenport, Auditor General
State of Arizona, Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The enclosed Corrective Action Plan includes the District's responses to the findings and recommendations. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the 2006 fiscal year's Schedule of Findings and Recommendations.

Sincerely,

Dr. Stephen Cullen
Senior Dean

Gila County Provisional Community College District
(Gila Community College)
Corrective Action Plan
Year Ended June 30, 2006

06-01

The District should have someone with the necessary accounting expertise to issue complete and accurate financial statements in a timely manner

Name of contact person: Dr. Stephen Cullen, Senior Dean

Anticipated completion date: July 1, 2011

Corrective Action Plan: Concur. The District has contracted with a CPA firm. The District will now have the capacity to submit accounting records and financial statements in a timely fashion. The CPA firm will complete this process. Gila Community College will perform the process of reviewing all financial statements for accuracy and properly maintaining financial statements.

06-02

The District should establish internal controls over its capital assets

Name of contact person: Dr. Stephen Cullen, Senior Dean

Anticipated completion date: July 1, 2010

Corrective Action Plan: Concur. The District will follow the policy of Eastern Arizona College by identifying capital expenditures as those greater than \$5,000. The Fiscal Coordinator of the District has been identified as the individual responsible for controlling capital assets.

Physical inventory of all capital assets will be conducted during the month of June each year.

The Fiscal Coordinator of the District has been identified as the individual to maintain the list of assets that will include where each asset is located.

The Fiscal Coordinator of the District has been identified as the individual to maintain current-year capital outlay expenses to ensure capital assets are recorded in the year the purchase was made.

The District has put in place an internal control system for capital assets. The maintenance staff placed asset tags on all capital assets and recorded the location of all capital assets during the month of March 2009.

Mr. Tim Curtis, Chief Business Officer (CBO) of Eastern Arizona College, will review and evaluate all lease agreements or capital leases to ensure that the evaluation will be included in all subsequent reports by the District.

Gila County Provisional Community College District
(Gila Community College)
Corrective Action Plan
Year Ended June 30, 2006

06-03

The District needs to better monitor and oversee its educational services and operating agreements

Name of contact person: Dr. Stephen Cullen, Senior Dean

Anticipated completion date: August 2011

Corrective Action Plan: Concur. Tim Curtis, CBO of Eastern Arizona College, will provide the District with the quarterly invoice and supporting documents. The process will begin August 2011 following the final quarter ending June 2011. The invoice and supporting documents will be reviewed by the District's Senior Dean and then presented to the Governing Board.

06-04

The District should prepare its Annual Budgeted Expenditure Limitation Report in a timely manner

Name of contact person: Dr. Stephen Cullen, Senior Dean

Anticipated completion date: August 1, 2011

Corrective Action Plan: Concur. The District will contract with a CPA firm to prepare the Annual Budgeted Expenditure Limitation Report.

06-05

The District should establish policies and procedures for disclosing conflicts of interest and material related party transactions

Name of contact person: Dr. Stephen Cullen, Senior Dean

Anticipated completion date: August 30, 2011

Corrective Action Plan: Concur. Currently, the District does not have policies pertaining to disclosing conflicts of interest and material related party transactions. The District's Governing Board chairman indicates that this policy will be in place by the end of August 2011.