



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, 2007



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, 2007

Table of Contents	Page
Independent Auditors' Report	
Management's Discussion and Analysis	i
Governmental Fund Balance Sheet/Statement of Net Assets	1
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities	2
Notes to Financial Statements	3
Required Supplementary Information	
Budgetary Comparison Schedule—General Fund	9
Note to Budgetary Comparison Schedule—General Fund	10
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11
Schedule of Findings and Recommendations	13
District Responses	19



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, 2007, 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 and accurate capital assets list to support the capital assets balance on the Statement of Net Assets at June 30, 2007. As a result, the District's records did not permit us to apply auditing procedures sufficient to determine whether the capital assets balance of \$171,607 was accurately reported in the June 30, 2007, 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 list 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, 2007, 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 April 26, 2012, 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

April 26, 2012



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Management's Discussion and Analysis

Our discussion and analysis of the Gila County Provisional Community College District's (District) financial performance provides an overview of the District's financial position and activities for the year ended June 30, 2007. 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 are presented in accordance with the reporting model prescribed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis*, and 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 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 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 educational programs; 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 and collects other general revenues to pay for the contracted education and other general operating expenses. The District 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 financial information in the *Statement of Net Assets* on page 1 reflects the District's assets, liabilities, and net assets. The *Statement of Activities* on page 2 presents the District's operations. Over time, increases or decreases in net assets may serve as a useful indicator of whether the District financial position is improving or regressing. The following tables present summaries of the District's net assets and the changes in net assets for the years ended June 30, 2007 and 2006.

Net Assets
As of June 30, 2007 and 2006

Assets:	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Increase/(Decrease)</u>
Current assets	\$3,030,964	\$2,583,047	\$447,917
Noncurrent assets:			
Capital assets, net of			
accumulated depreciation	<u>171,607</u>	<u>177,205</u>	<u>(5,598)</u>
Total assets	<u>3,202,571</u>	<u>2,760,252</u>	<u>442,319</u>
Liabilities:			
Current liabilities	<u>1,603,374</u>	<u>1,216,920</u>	<u>386,454</u>
Total liabilities	<u>1,603,374</u>	<u>1,216,920</u>	<u>386,454</u>
Net Assets:			
Invested in capital assets, net			
of related debt	171,607	177,205	(5,598)
Unrestricted	<u>1,427,590</u>	<u>1,366,127</u>	<u>61,463</u>
Total net assets	<u>\$1,599,197</u>	<u>\$1,543,332</u>	<u>\$ 55,865</u>

*Changes in Net Assets
For the Years Ended June 30, 2007 and 2006*

Expenses:	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Increase/(Decrease)</u>
Education and general	<u>\$3,367,017</u>	<u>\$2,610,177</u>	<u>\$ 756,840</u>
Total expenses	<u>3,367,017</u>	<u>2,610,177</u>	<u>756,840</u>
Revenues:			
Program revenues:			
Operating grants and contracts	<u>68,380</u>	<u>42,080</u>	<u>26,300</u>
Total program revenues	<u>68,380</u>	<u>42,080</u>	<u>26,300</u>
General revenues:			
Property taxes	2,541,574	2,453,990	87,584
State appropriations	360,300	335,700	24,600
Gila County allocation	250,000	250,000	
Investment earnings	50,724	61,222	(10,498)
Gain on sale of capital assets	24,037		24,037
Other	<u>127,867</u>	<u>11,849</u>	<u>116,018</u>
Total general revenues	<u>3,354,502</u>	<u>3,112,761</u>	<u>241,741</u>
Total revenues	<u>3,422,882</u>	<u>3,154,841</u>	<u>268,041</u>
Change in net assets	\$ 55,865	\$544,664	<u>\$(488,799)</u>
Net assets:			
Beginning	<u>1,543,332</u>	<u>998,668</u>	
Ending	<u>\$1,599,197</u>	<u>\$1,543,332</u>	

Significant Variances

For the fiscal year ended June 30, 2007, the fourth year of operations for the District, the financial data presented above is for analysis and comparison of significant variances relative to assets, liabilities, net assets, revenues, and expenses.

- Total assets at June 30, 2007, were \$3,202,571, consisting primarily of cash and investments of \$2,971,756 and capital assets, net of depreciation, of \$171,607. Cash and investments increased \$439,751 primarily due to additional tax receipts and timing of payments to EAC made after year-end.
- The total liabilities, representing current obligations for education and general expenses, increased by a net amount of \$386,454 to \$1,603,178 primarily due to an increase in the intergovernmental educational programs and services contract payable at year-end. However, the District had a decrease in liabilities for amounts due to Gila County in the amount of \$127,867 that were recorded in error during prior years and corrected during the current year.
- The increase in general revenues is primarily due to an increase in property tax revenues. In addition, other revenues of \$127,867 were recorded as a result of the elimination of the Gila County liability.
- There was an increase in net assets of \$55,865 for the year because education and general expenses increased due to an overall increase in student enrollment.

General Fund Budget

The District's actual education and general expenditures were \$807,603 less than budgeted amounts due to management's cost effective approach to spending. The result was that the District's actual total expenditures were \$812,005 less than budgeted amounts.

Total revenues were \$54,687 less than budgeted. Property tax revenues were \$65,695 less than budgeted because property values increased less than anticipated. The difference in budgeted compared to actual investment earnings was primarily due to a budgeting oversight by the District, which led to a variance of \$149,276 less than budgeted. In addition, revenues from the sale of assets and other revenues could not be budgeted because they were unanticipated.

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, was \$171,607 which was comprised of equipment and vehicles. This is a net decrease of \$5,598 from the prior year. The decrease can be attributed to a policy change in the District's capitalization threshold from \$1,000 to \$5,000.

Additional information on the District's capital assets can be found in Note 4 on page 7 of this report.

Current Factors Having Probable Future Financial Significance

As a result of EAC once again providing postsecondary education, tuition was more affordable than was the case with the previous provider. The lower tuition costs to students resulted in an increase in enrollment levels. As stated in the District's Mission Statement, providing access to quality higher education requires that tuition and related costs remain affordable, and the continuing increases in enrollment assist in meeting the operating costs of 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, 2007

	<u>Balance Sheet— General Fund</u>	<u>Reconciliation (Note 5)</u>	<u>Statement of Net Assets— Governmental Activities</u>
Assets			
Current assets:			
Cash and investments	\$ 2,971,756		\$ 2,971,756
Property taxes receivable	<u>59,208</u>		<u>59,208</u>
Total current assets	<u>3,030,964</u>		<u>3,030,964</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation		<u>\$ 171,607</u>	<u>171,607</u>
Total noncurrent assets		<u>171,607</u>	<u>171,607</u>
Total assets	<u>\$ 3,030,964</u>	<u>171,607</u>	<u>3,202,571</u>
 Current liabilities			
Due to other governments	\$ 1,603,374		1,603,374
Deferred revenue	<u>46,804</u>	<u>(46,804)</u>	<u> </u>
Total liabilities	<u>1,650,178</u>	<u>(46,804)</u>	<u>1,603,374</u>
 Fund balance/Net assets			
Fund balance:			
Unreserved	<u>1,380,786</u>	<u>(1,380,786)</u>	
Total fund balance	<u>1,380,786</u>	<u>(1,380,786)</u>	
Total liabilities and fund balance	<u>\$ 3,030,964</u>	<u>(1,427,590)</u>	
 Net assets:			
Invested in capital assets		171,607	171,607
Unrestricted		<u>1,427,590</u>	<u>1,427,590</u>
Total net assets		<u>\$ 1,599,197</u>	<u>\$ 1,599,197</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/Statement of Activities
Year Ended June 30, 2007

	General Fund	Reconciliation (Note 5)	Statement of Activities— Governmental Activities
Expenditures/Expenses:			
Education and general	\$ 3,300,321	\$ 66,696	\$ 3,367,017
Capital outlay	<u>61,098</u>	<u>(61,098)</u>	<u> </u>
Total expenditures/expenses	<u>3,361,419</u>	<u>5,598</u>	<u>3,367,017</u>
 Program revenues:			
Operating grants and contracts	68,380		68,380
Total program revenues	<u>68,380</u>	<u> </u>	<u>68,380</u>
Net program expenses	<u>3,293,039</u>	<u>5,598</u>	<u>3,298,637</u>
 General revenues:			
Property taxes	2,526,563	15,011	2,541,574
State appropriations	360,300		360,300
Gila County allocation	250,000		250,000
Investment earnings	50,724		50,724
Gain on sale of capital assets	24,037		24,037
Other	<u>127,867</u>	<u> </u>	<u>127,867</u>
Total general revenues	<u>3,339,491</u>	<u>15,011</u>	<u>3,354,502</u>
 Net change in fund balance	 46,452	 (46,452)	
Change in net assets		55,865	55,865
 Fund balance/Net assets:			
July 1, 2006	<u>1,334,334</u>	<u>208,998</u>	<u>1,543,332</u>
June 30, 2007	<u>\$ 1,380,786</u>	<u>\$ 218,411</u>	<u>\$ 1,599,197</u>

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Gila County Provisional Community College District (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 government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District (the primary government).

Because Gila County Provisional Community College 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 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 educational programs; 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. EAC charges the District a fee of 25 percent of the total disbursements it processes.

District personnel are not directly employed by the District. The staff is directly employed by EAC. The cost of the personnel compensation and related benefits is paid to EAC through an intergovernmental agreement.

B. Basis of Presentation and Accounting

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. Since the District is a single-program government, it presents the government-wide financial statements in combination with the fund financial statements.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2007

The Governmental Fund Balance Sheet/Statement of Net Assets provides information about the assets, liabilities, and fund balance/net assets of the District 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 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 Fund 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, and all changes in net assets are reported. Generally, revenues generated by the District for instruction and student services along with operating and capital grants and contributions are considered to be program revenues. Other revenues used for instruction and student services, such as property taxes, state appropriations, and investment earnings, not classified as program revenues are considered to be general revenues.

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government.

The fund financial statements, the Governmental Fund Balance Sheet, and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance 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. The District's major revenue sources susceptible to accrual are property taxes, state appropriations, government grants and contracts, and investment earnings. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in the General Fund.

The government-wide financial statements, the Statement of Net Assets, and the Statement of Activities 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.

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.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2007

C. Cash and Investments

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

D. 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	\$5,000	Straight-line	5 years
Vehicles	\$5,000	Straight-line	5 years

E. Property Tax Revenues

The Gila County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

F. 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.

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2007

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, 2007, the carrying amount of the District's deposits was \$2,843,168, and the bank balance was \$1,621,061. The District does not have a formal policy with respect to custodial credit risk of deposits. At June 30, 2007, \$1,521,061 of the District's bank balance was exposed to custodial credit risk, as it was uninsured with collateral held by the pledging financial institution.

Investments—The District's investments at June 30, 2007, were as follows:

Investment Type	Amount
County Treasurer's investment pool	\$128,588

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 pool's structure does not provide for 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, 2007, credit risk for the District's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
County Treasurer's investment pool	Unrated	Not applicable	\$128,588

Interest rate risk—The District does not have a formal policy regarding interest rate risk for investments. At June 30, 2007, the District had the following investments:

Investment Type	Investment Maturities	
	Amount	Less than 1 year
County Treasurer's investment pool	\$128,588	\$128,588

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2007

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

Cash, deposits, and investments:		Statement of Net Assets:	
Cash and deposits	\$2,843,168	Cash and investments	\$2,971,756
Investments	<u>128,588</u>		
Total	<u>\$2,971,756</u>	Total	<u>\$2,971,756</u>

Note 3 - Due To Other Governments

At June 30, 2007 the District had reported a total amount due to other governments of \$1,603,374. Of this amount, \$1,175,190 is owed to EAC for providing educational programs and services during the year. The remaining \$428,184 is payable to the Arizona State Treasurer.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets being depreciated:				
Equipment	\$1,672,473	\$53,122	\$1,015,406	\$710,189
Vehicles	<u>140,775</u>	<u> </u>	<u>8,423</u>	<u>132,352</u>
Total capital assets being depreciated	<u>1,813,248</u>	<u>53,122</u>	<u>1,023,829</u>	<u>842,541</u>
Less accumulated depreciation for:				
Equipment	1,516,600	42,868	1,004,887	554,581
Vehicles	<u>119,443</u>	<u>5,333</u>	<u>8,423</u>	<u>116,353</u>
Total accumulated depreciation	<u>1,636,043</u>	<u>48,201</u>	<u>1,013,310</u>	<u>670,934</u>
Total capital assets, net of accumulated depreciation	<u>\$ 177,205</u>	<u>\$ 4,921</u>	<u>\$ 10,519</u>	<u>\$171,607</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to Financial Statements
June 30, 2007

Note 5 - Reconciliations

The reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets at June 30, 2007, was as follows:

Fund balance—governmental fund	\$1,380,786
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.	46,804
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>171,607</u>
Net assets of governmental activities	<u>\$1,599,197</u>

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, 2007, was as follows:

Net change in fund balance—governmental fund	\$ 46,452
Amounts reported for governmental activities in the Statement of Activities are different because:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	15,011
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets that are capitalized is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay and the net write off of capital assets no longer meeting the capitalization threshold.	42,603
Depreciation expense	<u>(48,201)</u>
Net capital outlay	<u>(5,598)</u>
Change in net assets of governmental activities	<u>\$ 55,865</u>

Note 6 - 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 three fiscal years.

Gila County Provisional Community College District
(Gila Community College)
Required Supplementary Information
Budgetary Comparison Schedule—General Fund
Year Ended June 30, 2007

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Property taxes	\$ 2,592,258	\$ 2,526,563	\$ (65,695)
State appropriations	360,300	360,300	
Gila County allocation	250,000	250,000	
Operating grants and contracts	60,000	68,380	8,380
Investment earnings	200,000	50,724	(149,276)
Gain on sale of assets		24,037	24,037
Other		127,867	127,867
Total revenues	<u>3,462,558</u>	<u>3,407,871</u>	<u>(54,687)</u>
Expenditures:			
Education and general	4,107,924	3,300,321	807,603
Capital outlay	<u>65,500</u>	<u>61,098</u>	<u>4,402</u>
Total expenditures	<u>4,173,424</u>	<u>3,361,419</u>	<u>812,005</u>
Net change in fund balance	(710,866)	46,452	757,318
Fund balance:			
July 1, 2006	<u>1,334,334</u>	<u>1,334,334</u>	
June 30, 2007	<u>\$ 623,468</u>	<u>\$ 1,380,786</u>	<u>\$ 757,318</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, 2007

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 must contain the estimated cost of all operating, capital outlay, and debt service expenditures. The District budgets all General Fund expenditures in total since all costs are paid through the agreement with Eastern Arizona College.



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, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 26, 2012. 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 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 07-01, 07-02, 07-03, and 07-05 described in the accompanying Schedule of Findings and Recommendations 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 07-01, 07-02, and 07-03 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 07-04.

Gila County Provisional Community College District's responses to the findings identified in our audit are presented on pages 19 through 20. 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, management, and others at the District 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

April 26, 2012

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
Year Ended June 30, 2007

07-01

The District should have adequate procedures and someone with the necessary accounting expertise to issue complete, accurate, and timely financial statements

Criteria: The District should issue accurate and timely financial statements to meet audit requirements imposed by state laws and regulations and demonstrate fiscal accountability. Accordingly, 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, as they were issued nearly 5 years after fiscal year-end. The financial statements were prepared by contracted consultants; however, the District did not have personnel with the necessary accounting expertise 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 programs and services to the District. However, the agreements with EAC did not provide for EAC to perform recordkeeping or accounting services, and the District did not have procedures to ensure that this financial information was included in its accounting records and 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.

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. The District contracted with two separate consultants who maintained the accounting records and compiled the financial statements, respectively. However, in 2008, the contractor who maintained the accounting records retired and was not replaced. The District did not have adequate procedures or the personnel with the necessary expertise to ensure that the financial statements were complete and accurate.

Recommendation: The District may either employ personnel or hire consultants to maintain the accounting records and compile the financial statements. However, if the District contracts these functions to consultants, it should ensure that it provides sufficient guidance and oversight for this work to ensure that records are properly maintained and adjusted, and that the financial statements are complete and accurate, prepared in time to meet audit requirements, and presented in accordance with GAAP. Furthermore, the person at the District with these oversight responsibilities should request the accounting records and other supporting documentation from EAC to ensure that all financial information is included in the District's financial statements.

This finding is similar to a prior-year finding.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
Year Ended June 30, 2007

07-02

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 did not have policies and procedures to ensure that all capital assets were safeguarded, accounted for, and reported. The District prepared a list of its capital assets at June 30, 2007; however, the list did not contain sufficient detail to identify and locate the assets because the District had not performed a physical inventory and did not tag or individually identify the assets. As a result, auditors could not verify whether the list was accurate or complete. Additionally, the District auctioned off many of its assets during the fiscal year, but did not maintain sufficient evidence as to which assets were sold and should be removed from the list. Also, the District did not always record or properly value capital asset additions. Nor did the District properly record or evaluate whether equipment leased should have been capitalized. Finally, there was no one at the District who was assigned the responsibility for controlling capital assets.

Effect: Without appropriate 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.

Cause: The District did not establish and implement policies and procedures to safeguard, account for, and report capital assets, most of which were acquired in 2005. Additionally, the District did not assign an employee to be responsible for controlling capital assets until fiscal year 2010.

Recommendation: The District should continue its efforts to establish a system of internal controls over capital assets that includes 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.
- Perform a physical inventory of all capital assets at least once every 2 years 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. The list should also be updated for capital asset disposals each year.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
Year Ended June 30, 2007

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

This finding is similar to a prior-year finding.

07-03

The District needs to better monitor and provide oversight for its educational services and operating agreements

Criteria: The District should monitor and provide oversight for its educational services and operating agreements with Eastern Arizona College (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 98 percent of the District's total expenses for the year were for contracted educational programs and services provided by EAC. However, the District did not perform the necessary monitoring and oversight over the contracted 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.

Cause: The District did not assign an official the responsibilities for monitoring and overseeing these agreements until fiscal year 2011. 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 continue its efforts to establish policies and procedures to monitor and oversee its contracted services and operating agreements with EAC. Such policies and procedures should require that sufficient documentation be obtained from EAC to support the expenses billed to the District. Further, this documentation should be reviewed to ensure the amounts charged are correct and in accordance with the agreements' terms and conditions.

This finding is similar to a prior-year finding.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
Year Ended June 30, 2007

07-04

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, 2007, by the required statutory deadline of October 31, 2007.

Effect: The District could face sanctions if the District continues to not submit its ABELR by the deadline because it is not in compliance with A.R.S. §41-1279.07(C).

Cause: As discussed in finding 07-01, 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 Reports 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).

This finding is similar to a prior-year finding.

07-05

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 employees of Eastern Arizona College (EAC) that provided educational and other services to the District followed EAC's policies and procedures for disclosing conflicts of interest, the District's Governing Board did not have policies to ensure that conflicts of interest were identified and disclosed, as required by state laws. Further, the District did not have procedures to ensure that related party transactions were identified in the District's records and, if material, disclosed in the financial statements.

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, the occurrence of significant related party transactions may not be detected or disclosed in the notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Schedule of Findings and Recommendations
Year Ended June 30, 2007

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.

Recommendation: The District should establish written policies and procedures to help ensure compliance with state conflict-of-interest statutes and disclosure requirements for material 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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San Carlos Campus: PO Box 152 San Carlos, AZ 85550

Phone: (928) 475-5981 Fax: (928) 475-5983

April 26, 2012

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 accompanying Corrective Action Plan has been prepared as required by standards applicable to financial audits contained in *Government Auditing Standards*. Specifically, we are providing you with the corrective action planned for the financial reporting findings and 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 2007 fiscal year's Schedule of Findings and Recommendations.

Sincerely,

Dr. Stephen Cullen
Senior Dean

Gila County Provisional Community College District
(Gila Community College)
District Responses
June 30, 2007

07-01

The District should have adequate procedures and someone with the necessary accounting expertise to issue complete, accurate, and timely financial statements

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

Anticipated completion date: May 15, 2012

Corrective Actions Planned: The District has contracted with a CPA firm for the preparation of the Fiscal Year 2008 financial statements. A Request for Proposal has been released to all perspective Certified Public Accounting firms for Fiscal Years 2009 through 2011. The CPA firm's scope of work includes preparation of financial statements, preparation of Annual Budgeted Expenditure Limitation Report, and closing entries. Following the preparation of the financial statements, the Senior Dean and fiscal coordinator will review accuracy.

07-02

The District should establish internal controls over its capital assets

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

Anticipated completion date: July 2010

Corrective Actions Planned: The District will follow the policies of Eastern Arizona College. The District now identifies all capital expenditures as those greater than \$5,000. The Fiscal Coordinator of the District has the responsibility of controlling capital assets. The Fiscal Coordinator of the District maintains a complete listing of all capital assets of \$5,000 or greater and reconciles expenditures and disposals to the listing. Assets tags are now attached to all capital assets of \$5,000 or greater. A physical inventory of all capital assets is conducted during the month of June each fiscal year. Finally, Mr. Tim Curtis, the Chief Business Officer of Eastern Arizona College, evaluates all lease agreements and/or capital leases to ensure that the evaluation will be included in all subsequent reports by the District.

07-03

The District needs to better monitor and provide oversight for its educational services and operating agreements

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

Anticipated completion date: August 2011

Corrective Actions Planned: Mr. Tim Curtis, Chief Business Officer of Eastern Arizona College, provides the District with quarterly invoices and supporting documents. The invoices are reconciled to the supporting documents provided by Eastern Arizona College. The reconciliation is reviewed by the Senior Dean, then the current Gila Community College District Board President and signed by the Board President following his/her review.

Gila County Provisional Community College District
(Gila Community College)
District Responses
June 30, 2007

07-04

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: November 8, 2011

Corrective Actions Planned: The Annual Budgeted Expenditure Limitation Report is now prepared by the CPA providing services to the District.

07-05

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: June 30, 2012

Corrective Actions Planned: The policy relative to procedures of disclosing conflict of interest and related party transactions will be placed on the governing board agenda as a "discuss/action item" prior to the end of Fiscal Year 2012.