

**Gila County Provisional Community College
District**
(Gila Community College)

Annual Financial Report and
Report on Internal Control
and on Compliance

Year Ended June 30, 2018

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Rick Gray**, Chair
Senator **Lupe Contreras**
Senator **Andrea Dalessandro**
Senator **David C. Farnsworth**
Senator **David Livingston**
Senator **Karen Fann** (ex officio)

Representative **Anthony T. Kern**, Vice Chair
Representative **John Allen**
Representative **Timothy M. Dunn**
Representative **Mitzi Epstein**
Representative **Jennifer Pawlik**
Representative **Rusty Bowers** (ex officio)

Audit Staff

Donna Miller, Director
Stephanie Gerber, Manager

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

contact@azauditor.gov

(602) 553-0333

www.azauditor.gov



TABLE OF CONTENTS

Annual Financial Report

Independent auditors' report

Financial statements

Required supplementary information—management's discussion and analysis	a-1
Governmental fund balance sheet/statement of net position	1
Statement of governmental fund revenues, expenditures, and changes in fund balance/ statement of activities	2
Notes to financial statements	3

Other required supplementary information

Budgetary comparison schedule—General Fund	11
Note to budgetary comparison schedule—General Fund	12

Report on Internal Control and on Compliance

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 <i>Government Auditing Standards</i>	13
--	----

Schedule of findings and recommendations	15
---	----

District response

Corrective action plan	
------------------------	--



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

The Governing Board of
Gila County Provisional Community College District

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities and general fund of the Gila County Provisional Community College District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-4 and budgetary comparison schedule—general fund on pages 11 and 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Lindsey Perry, CPA, CFE
Auditor General

September 12, 2019



Management's Discussion and Analysis

Our discussion and analysis of the Gila County Provisional Community College District's (District's) financial performance provides an overview of the District's financial position and activities for the year ended June 30, 2018. Please read it in conjunction with the District's basic financial statements, which immediately follow.

Basic financial statements

The District 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 presented, with a reconciliation shown between them.

The Governmental Fund Balance Sheet/Statement of Net Position 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 the fund statements that 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 focuses on near-term inflows and outflows of resources as well as the balances of spendable resources available at year end.

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 Statutes, the District does not offer degrees, certificates, or diplomas. As a result, the District has contracted with Eastern Arizona College (EAC) to provide educational programs and services.

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, 2022. 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 Position* on page 1 reflects the District's assets, liabilities, and net position. The *Statement of Activities* on page 2 presents the District's operations. Over time, increases or decreases in net position may serve as a useful indicator of whether the District's financial position is improving or regressing. The following tables present summaries of the District's net position and the changes in net position for the years ended June 30, 2018 and 2017.

Net Position
As of June 30, 2018 and 2017

Assets:	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Increase/(decrease)</u>
Current assets	\$ 5,209,255	\$ 4,507,067	\$ 702,188
Noncurrent assets:			
Capital assets, not being depreciated	1,678,032	1,210,000	468,032
Capital assets, net of accumulated depreciation	<u>4,967,202</u>	<u>5,010,417</u>	<u>(43,215)</u>
Total assets	<u>11,854,489</u>	<u>10,727,484</u>	<u>1,127,005</u>
Liabilities:			
Other liabilities	1,923,682	1,732,259	191,423
Long-term liabilities	<u>52,540</u>	<u>46,845</u>	<u>5,695</u>
Total liabilities	<u>1,976,222</u>	<u>1,779,104</u>	<u>197,118</u>
Net position:			
Net investment in capital assets	6,601,945	6,175,874	426,071
Unrestricted	<u>3,276,322</u>	<u>2,772,506</u>	<u>503,816</u>
Total net position	<u>\$ 9,878,267</u>	<u>\$ 8,948,380</u>	<u>\$ 929,887</u>

*Changes in Net Position
For the Years Ended June 30, 2018 and 2017*

Expenses:	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Increase/(decrease)</u>
Education and general	\$5,234,065	\$5,062,821	\$ 171,244
Interest on long-term debt	<u>56</u>	<u>58</u>	<u>(2)</u>
Total expenses	<u>5,234,121</u>	<u>5,062,879</u>	<u>171,242</u>
Revenues:			
Program revenues:			
Charges for services	66,310	71,299	(4,989)
Operating grants and contracts	<u>639,104</u>	<u>946,425</u>	<u>(307,321)</u>
Total program revenues	<u>705,414</u>	<u>1,017,724</u>	<u>(312,310)</u>
General revenues:			
Property taxes	4,489,682	4,196,344	293,338
State appropriations	793,224	549,873	243,351
Investment earnings	3,194	2,640	554
Capital contributions	170,710	33,750	136,960
Other	<u>1,784</u>	<u>3,186</u>	<u>(1,402)</u>
Total general revenues	<u>5,458,594</u>	<u>4,785,793</u>	<u>672,801</u>
Total revenues	<u>6,164,008</u>	<u>5,803,517</u>	<u>360,491</u>
Change in net position	\$ 929,887	\$ 740,638	<u>\$ 189,249</u>
Beginning net position	<u>8,948,380</u>	<u>8,207,742</u>	
Ending net position	<u>\$9,878,267</u>	<u>\$8,948,380</u>	

Significant variances

For the fiscal year ended June 30, 2018, the financial data presented above is for analysis and comparison of significant variances relative to assets, liabilities, net position, revenues, and expenses.

- Total assets at June 30, 2018 were \$11,854,489 consisting primarily of cash and investments of \$4,631,893 and capital assets, net of accumulated depreciation, of \$6,645,234.
- The total liabilities of \$1,976,222 were comprised of current obligations for educational and general expenses and long-term liabilities for long term debt.
- The increase in educational and general expenses of \$171,244 was primarily due to an increase in contractual expenses paid to EAC for the year.
- The decrease in program revenues of \$312,210 is due to the discontinuation of the support agreement with the San Carlos Apache Tribe for facilities preservation and the District not receive private grants during the fiscal year.
- The increase in general revenues of \$672,801 is due to an increase in property tax revenues and an increase in additional workforce development aid appropriated by the State.

General fund budget

The District's actual educational and general expenditures were \$2,939,104 less than budgeted amounts primarily due to an anticipated increase in these expenditures for tuition that was budgeted but not realized because it was earned and reported by EAC and then deducted from amounts owed to EAC for contracted services.

Total revenues were \$854,304 less than budgeted. The difference in budgeted compared to actual charges for services in the amount of \$1,333,690 was primarily due to tuition that was budgeted but not realized because tuition was earned and reported by EAC. 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 \$96,806 less than budgeted.

The District's actual beginning fund balance was \$1,392,630 more than budgeted due to changes in estimated fund balance between the time the budget was initially prepared and the year-end actual results.

Additional budgetary information can be found on pages 11 and 12 of this report.

Capital assets and debt administration

Capital assets. The District's total investment in capital assets, net of accumulated depreciation, was \$6,645,234 which was comprised of land and land improvements, buildings and building improvements, equipment, vehicles, library books, and construction in progress. This is a net increase of \$424,817 from the prior year. The increase can be attributed primarily to the development of a Payson Skill Lab and a five modular building expansion on the Globe Campus.

Additional information on the District's capital assets can be found in Note 4 in the notes to the financial statements.

Debt administration. At year end, the District had \$52,540 in long-term debt outstanding, \$8,519 due within one year. This represents an increase of \$5,695 which can be attributed to capital lease additions.

Additional information on the District's long-term debt can be found in Note 6 in the notes to the financial statements.

Gila County Provisional Community College District
(Gila Community College)
Governmental fund balance sheet/statement of net position
June 30, 2018

	<u>Balance sheet— general fund</u>	<u>Reconciliation (Note 7)</u>	<u>Statement of net position— governmental activities</u>
Assets			
Current assets:			
Cash and investments	\$ 4,631,893		\$ 4,631,893
Property taxes receivable	159,901		159,901
Due from other governments	417,461		417,461
Total current assets	<u>5,209,255</u>		<u>5,209,255</u>
Noncurrent assets:			
Capital assets, not being depreciated		\$ 1,678,032	1,678,032
Capital assets, net of accumulated depreciation		<u>4,967,202</u>	<u>4,967,202</u>
Total noncurrent assets		<u>6,645,234</u>	<u>6,645,234</u>
Total assets	<u>5,209,255</u>	<u>6,645,234</u>	<u>11,854,489</u>
Liabilities			
Current liabilities:			
Accounts payable	22,960		22,960
Due to other governments	1,881,122		1,881,122
Unearned revenue	19,600		19,600
Current portion of long-term debt		<u>8,519</u>	<u>8,519</u>
Total current liabilities	<u>1,923,682</u>	<u>8,519</u>	<u>1,932,201</u>
Noncurrent liabilities:			
Long-term debt		<u>44,021</u>	<u>44,021</u>
Total noncurrent liabilities		<u>44,021</u>	<u>44,021</u>
Total liabilities	<u>1,923,682</u>	<u>52,540</u>	<u>1,976,222</u>
Deferred inflows of resources			
Unavailable revenues—property taxes	<u>141,859</u>	<u>(141,859)</u>	
Total deferred inflows of resources	<u>141,859</u>	<u>(141,859)</u>	
Fund balance/net position			
Fund balance:			
Unassigned	<u>3,143,714</u>	<u>(3,143,714)</u>	
Total fund balance	<u>3,143,714</u>	<u>(3,143,714)</u>	
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,209,255</u>		
Net position:			
Net investment in capital assets		6,601,945	6,601,945
Unrestricted		<u>3,276,322</u>	<u>3,276,322</u>
Total net position		<u>\$ 9,878,267</u>	<u>\$ 9,878,267</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, 2018

	<u>General fund</u>	<u>Reconciliation (Note 7)</u>	<u>Statement of activities— governmental activities</u>
Expenditures/expenses			
Education and general	\$ 4,806,939	\$ 427,126	\$ 5,234,065
Debt service			
Principal retirement	8,665	(8,665)	
Interest on long-term debt	56		56
Capital outlay	<u>681,233</u>	<u>(681,233)</u>	
Total expenditures/expenses	<u>5,496,893</u>	<u>(262,772)</u>	<u>5,234,121</u>
 Program revenues			
Charges for services	66,310		66,310
Operating grants and contracts	<u>639,104</u>		<u>639,104</u>
Total program revenues	<u>705,414</u>		<u>705,414</u>
Net program expenses	<u>4,791,479</u>	<u>(262,772)</u>	<u>4,528,707</u>
 General revenues			
Property taxes	4,493,901	(4,219)	4,489,682
State appropriations	793,224		793,224
Investment earnings	3,194		3,194
Capital contributions		170,710	170,710
Other	<u>1,784</u>		<u>1,784</u>
Total general revenues	<u>5,292,103</u>	<u>166,491</u>	<u>5,458,594</u>
 Other financing sources			
Capital lease obligations	<u>14,360</u>	<u>(14,360)</u>	
 Net change in fund balance	514,984	(514,984)	
Change in net position		929,887	929,887
 Fund balance/net position			
July 1, 2017	<u>2,628,730</u>	<u>6,319,650</u>	<u>8,948,380</u>
June 30, 2018	<u>\$ 3,143,714</u>	<u>\$ 6,734,553</u>	<u>\$ 9,878,267</u>

See accompanying notes to financial statements.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2018

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 (GAAP) 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 District's activities.

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, 2022. 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 the intergovernmental agreement.

B. Basis of presentation and accounting

The financial statements include the Governmental Fund Balance Sheet/Statement of Net Position 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.

The Governmental Fund Balance Sheet/Statement of Net Position provides information about the assets, liabilities, deferred inflows of resources and fund balance/net position of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net position is classified according to external donor restrictions or availability of assets to satisfy the District obligations. Net investment 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 position includes all other net resources, including those that have been designated by management to be used for other than general operating purposes.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2018

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 position 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.

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 fund 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, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in the General Fund. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

The government-wide financial statements, the Statement of Net Position 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.

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 or estimated historical cost if historical records are not available. Donated assets are reported at acquisition value.

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:

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2018

	Capitalization threshold	Depreciation method	Estimated useful life
Land	\$1	Not applicable	Not applicable
Buildings	\$5,000	Straight-line	15-40 years
Equipment	\$5,000	Straight-line	5-15 years
Improvements other than buildings	\$5,000	Straight-line	5-25 years
Library materials	\$1	Straight-line	10 years

E. Property tax revenues

The District's property tax rate is adopted by the Governing Board and reviewed on an annual basis. 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. Deferred inflows of resources

The balance sheet includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of fund balance that applies to future periods and will be recognized as a revenue in future periods.

G. Investment earnings

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

H. Fund balance classifications

Fund balance of the governmental fund is reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications. Although the District did not use all of the fund balance classifications during the current year, descriptions of each classification and the District's policies follows.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, laws or regulations.

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2018

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the District's Governing Board, which is the highest level of decision-making authority within the District. The constraints placed on committed fund balances can only be removed or changed by the Board.

Assigned fund balances are resources constrained by the District's intent to be used for specific purposes, but is neither restricted nor committed. Assigned amounts represent intended uses established by the Board or a management official delegated that authority by formal Board action.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, the District will use restricted fund balance first. For the disbursement of unrestricted fund balances, the District will use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

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 another's property when making investment decisions about those monies. A.R.S. requires collateral for deposits at 102 percent of all deposits not covered by Federal depository insurance. The statutes do not include any requirements for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District's investments.

Deposits—At June 30, 2018, the carrying amount of the District's deposits was \$4,587,506, and the bank balance was \$6,097,756. The District does not have a formal policy with respect to custodial credit risk of deposits. At June 30, 2018, the District's deposits were entirely covered by Federal depository insurance or by collateral held by the pledging financial institution.

Investments—The District's investment in the County Treasurer's investment pool is valued using the District's proportionate participation in the pool because the pool's structure does not provide for shares. The District's portion is not identified with specific investments, and therefore, it is not subject to custodial credit risk.

The District's investment balance measured at fair value at June 30, 2018 was as follows:

Investment type	Amount
County Treasurer's investment pool	\$44,137

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2018

Credit risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill the obligation. The District does not have a formal policy with respect to credit risk. At June 30, 2018, credit risk for the District’s investments was as follows:

Investment type	Rating	Rating agency	Amount
County Treasurer’s investment pool	Unrated	Not applicable	\$44,137

Interest rate risk—Interest rate risk is the risk that changes in interest rates will adversely affect an investments fair value. The District does not have a formal policy regarding interest rate risk for investments. At June 30, 2018, the District had the following investments:

Investment type	Average maturity	Amount
County Treasurer’s investment pool	1.02 years	\$44,137

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

Cash, deposits, and investments:		Statement of net position:	
Petty cash	\$ 250	Cash and investments	\$4,631,893
Amount of deposits	4,587,506		
Amount of investments	44,137		
Total	<u>\$4,631,893</u>	Total	<u>\$4,631,893</u>

Note 3 - Due from other governments

Due from other governments at June 30, 2018, as reported in the Statement of Net Position is comprised of amounts due from Eastern Arizona College in the amount of \$354,961, and \$62,500 due from the Gila County Board of Supervisors.

Note 4 - Capital assets

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

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 1,210,000			\$ 1,210,000
Construction in progress		\$ 468,032		468,032
Total capital assets not being depreciated	<u>1,210,000</u>	<u>468,032</u>		<u>1,678,032</u>
Capital assets being depreciated:				
Buildings and improvements	5,358,816	11,659		5,370,475
Land improvements	114,696	50,931		165,627
Equipment	1,134,213	107,760	\$16,956	1,225,017
Vehicles	198,174			198,174
Library books	361,668			361,668
Total capital assets being depreciated	<u>7,167,567</u>	<u>170,350</u>	<u>16,956</u>	<u>7,320,961</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2018

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Less accumulated depreciation for:				
Buildings and improvements	\$ (714,781)	\$(144,468)		\$ (859,249)
Land improvements	(8,909)	(6,368)		(15,277)
Equipment	(904,260)	(48,443)	\$(16,956)	(935,747)
Vehicles	(193,623)	(3,879)		(197,502)
Library books	<u>(335,577)</u>	<u>(10,407)</u>		<u>(345,984)</u>
Total accumulated depreciation	<u>(2,157,150)</u>	<u>(213,565)</u>	<u>(16,956)</u>	<u>(2,353,759)</u>
Total capital assets, being depreciated, net	<u>5,010,417</u>	<u>(43,215)</u>		<u>4,967,202</u>
Total capital assets, net	<u>\$ 6,220,417</u>	<u>\$ 424,817</u>	<u>\$ _____</u>	<u>\$ 6,645,234</u>

Construction commitments—In fiscal year 2018, the District began construction on modular buildings to house a skills lab at the Payson campus and on modular buildings on the Globe campus for health classes and clinicals. The estimated cost to complete the projects is \$11,216 and \$17,590, respectively.

Note 5 - Due to other governments

At June 30, 2018, the District had reported a total amount due to other governments of \$1,881,122. A portion of this liability, in the amount of \$1,525,302 is owed to EAC for providing educational programs and services during the year. The remaining amount of \$355,820 is owed to the State of Arizona related to erroneous sales tax distributions in prior years.

Note 6 - Long-term liabilities

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

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within 1 year
Capital leases payable	\$ 2,302	\$14,360	\$2,302	\$14,360	\$2,156
Loan payable	<u>44,543</u>		<u>6,363</u>	<u>38,180</u>	<u>6,363</u>
Total long-term debt	<u>\$46,845</u>	<u>\$14,360</u>	<u>\$8,665</u>	<u>\$52,540</u>	<u>\$8,519</u>

Capital leases—The District has acquired equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for transfer of ownership by the end of the lease term or are in place for greater than 75 percent of the economic life of the asset.

The assets acquired through capital leases are as follows:

Equipment	\$22,240
Less: accumulated depreciation	<u>(7,880)</u>
Carrying value	<u>\$14,360</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2018

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2018:

Year ending June 30:		
	2019	\$ 2,156
	2020	2,872
	2021	2,872
	2022	2,872
	2023	2,872
	2024	<u>716</u>
Present value of net minimum lease payments		<u>\$14,360</u>

Loan payable—The District acquired a building and equipment for their cosmetology program partially through an IGA with Northern Arizona Vocational Institute of Technology (NAVIT). In accordance with the agreement, NAVIT provided the District with \$187,264 in fiscal year 2014 and the District is required to pay back \$63,632.

The following schedule details debt service requirements to maturity for the District's long-term debt at June 30, 2018:

Year ending June 30:		
	2019	\$ 6,363
	2020	6,363
	2021	6,363
	2022	6,363
	2023	6,363
	2024	<u>6,365</u>
Total payments		<u>\$38,180</u>

Note 7 - Reconciliations

The reconciliation of the governmental fund balance sheet to the statement of net position at June 30, 2018, was as follows:

Fund balance—governmental fund	\$3,143,714
Amounts reported for governmental activities in the statement of net position are different because:	
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the governmental fund	141,859
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund	6,645,234
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund	<u>(52,540)</u>
Net position of governmental activities	<u>\$9,878,267</u>

Gila County Provisional Community College District
(Gila Community College)
Notes to financial statements
June 30, 2018

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, 2018, was as follows:

Net change in fund balance—governmental fund	\$ 514,984
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 governmental fund	(4,219)
Governmental fund reports 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	
Expenditures for capitalized assets	467,672
Depreciation expense	<u>(213,565)</u>
Net capital outlay	254,107
Donated capital assets are recorded as capital contributions in the statement of activities, but are not current financial resources in the governmental fund	170,710
Issuance of long-term debt provides current financial resources to governmental fund, but the issuance increases long term liabilities in the statement of net position	(14,360)
Repayments of long-term debt principal are expenditures in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position	<u>8,665</u>
Change in net position of governmental activities	<u>\$ 929,887</u>

Note 8 - 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, through EAC, 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, 2018

	<u>Original and final budget</u>	<u>Actual amounts</u>	<u>Variance with final budget</u>
Revenues:			
Property taxes	\$ 4,511,921	\$ 4,493,901	\$ (18,020)
State appropriations	514,900	793,224	278,324
Charges for services	1,400,000	66,310	(1,333,690)
Operating grants and contracts	325,000	639,104	314,104
Investment earnings	100,000	3,194	(96,806)
Other	<u> </u>	<u>1,784</u>	<u>1,784</u>
Total revenues	<u>6,851,821</u>	<u>5,997,517</u>	<u>(854,304)</u>
Expenditures:			
Education and general	7,746,043	4,806,939	2,939,104
Debt service			
Principal retirement		8,665	(8,665)
Interest on long-term debt		56	(56)
Capital outlay	<u>341,800</u>	<u>681,233</u>	<u>(339,433)</u>
Total expenditures	<u>8,087,843</u>	<u>5,496,893</u>	<u>2,590,950</u>
Other financing sources			
Capital lease obligations	<u> </u>	<u>14,360</u>	<u>14,360</u>
Total other financing sources	<u> </u>	<u>14,360</u>	<u>14,360</u>
Net change in fund balance	(1,236,022)	514,984	1,751,006
Fund balance:			
July 1, 2017	<u>1,236,100</u>	<u>2,628,730</u>	<u>1,392,630</u>
June 30, 2018	<u>\$ 78</u>	<u>\$ 3,143,714</u>	<u>\$ 3,143,636</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, 2018**

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 (EAC).

The District's budget is prepared on an accounting basis consistent with generally accepted accounting principles, except for the beginning unrestricted General Fund balance presented on the General Fund's Budgetary Comparison Schedule, which is budgeted on the cash basis, and charges for services presented on the general fund's budgetary comparison schedule, which represents tuition and fees earned and reported by EAC and which are not reported in the District's financial statements.



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Governing Board of
Gila County Provisional Community College District

We have audited, 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, 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 12, 2019.

Internal control over financial reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as items 2018-01, 2018-02, and 2018-03, that we consider to be significant deficiencies.

Compliance and other matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying schedule of findings and recommendations as items 2018-02 and 2018-03.

Gila County Provisional Community College District's response to findings

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

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey Perry, CPA, CFE
Auditor General

September 12, 2019



SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Financial statement findings

2018-01

The District needs to improve controls over its capital assets

Condition and context—During the District’s annual inventory, the District did not update its capital asset list to include all necessary information for each capital asset, such as tag number, serial number, specific location, including campus, building, and room, and whether a restricted source of monies was used to purchase the asset, such as State or local grants. Additionally, the District did not prepare disposal forms for all capital asset disposals to indicate that written approval was obtained prior to disposal and the approved disposal manner, such as sold at auction, placed in surplus, or destroyed.

Criteria—The District’s capital assets comprise \$6.6 million, or 55 percent of the District’s total assets. Therefore, the District should have effective internal controls over capital assets that are sufficient to control, safeguard, and report them.

Effect—The District’s capital assets were exposed to potential theft, loss, and misuse, and they may not have been accurately reported in the financial statements.

Cause—The District did not fully implement its policies and procedures to ensure its capital asset list included all necessary information for each capital asset and disposal forms were prepared for all capital asset disposals.

Recommendation—To help ensure the County’s capital assets are safeguarded against theft, loss, and misuse and accurately reported in the financial statements, the County should implement its policies and procedures to:

- Reconcile inventory results to the capital asset list to ensure the list includes all necessary information for each capital asset, such as tag number, serial number, specific location, including campus, building, and room, and whether a restricted source of monies was used to purchase the asset, such as State, or local grants.
- Prepare a disposal form for each capital asset removed from the capital asset list that includes documentation that supervisory approval was obtained prior to the capital asset’s disposal and the approved manner for the capital asset’s disposal.

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

This finding is similar to prior year finding 2017-03.

2018-02

The District needs to improve controls over purchasing

Condition and context—For purchases of goods and services from 4 vendors exceeding \$67,000, the District did not perform competitive purchasing procedures to ensure that the District received the best possible value for the monies it spent.

Criteria—The District spends a significant amount of public monies, including monies from State, and other intergovernmental grants and contracts, to acquire goods and services. To follow best practices and to comply with grants and contracts that have competitive purchasing method requirements, the District should strengthen and follow its policies and procedures to help ensure that it uses competitive purchasing methods when acquiring goods and services, so it receives the best possible value for public monies it spends.

Effect—There is an elevated risk that purchases made and contracts entered into were not the best possible value and therefore the District overspent public monies.

Cause—The District did not properly train its employees on the District's written policies and procedures and did not monitor employees involved in purchasing to ensure policies and procedures were consistently followed.

Recommendation—To help ensure the District protects the public interest and ensure it receives the best value for goods and services it purchases or for which it contracts, the District should implement and follow detailed policies and procedures for purchasing that include:

- Obtaining competitive sealed bids or proposals, as appropriate, for all purchases of construction, materials, and services exceeding the District's competitive bid threshold.
- Preparing and maintaining a bid file that contains a copy of the invitation for bid or an affidavit of publication, bid specifications, bids received from vendors, correspondence, and other documents related to the competitive bid and vendor selection process. This should include supporting documentation justifying the vendor selection if the vendor with the lowest price quotation is not selected. Retain bid files in accordance with State regulations.
- Obtaining written contracts for all services that include the scope of the work to be performed, the amounts to be charged to the District, and other pertinent contract terms. Written contracts should be obtained prior to the vendor's commencement of the work and the District's payment to the vendor.
- Requiring a minimum number of vendors to be contacted for oral and written price quotations and document vendors contacted and their reasons for not providing quotations, if applicable.
- Establishing criteria for sole source determinations and require that documentation be prepared that clearly justifies there are no reasonable alternative sources prior to acquiring goods and services when a sole source is used for procurement.
- Developing a change order process that specifies when changes to a contract require management's or the governing board's approval, such as, increases to the amounts originally contracted.
- Training employees involved in purchasing on the policies and procedures to follow and monitor employees' compliance with them.

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

This finding is similar to prior year finding 2017-07.

2018-03

The District should issue its annual financial report in a timely manner

Condition and context—The District did not issue its annual financial and budgeted expenditure limitation reports until over 1 year after the District's fiscal year-end.

Criteria—The District is required to issue its annual financial and budgeted expenditure limitation reports within 9 months after fiscal year-end (Arizona Revised Statutes §41-1279.07(C)).

Effect—The District did not provide valuable information to those charged with governance, management, and other financial statement users in a timely manner to help them make important decisions about the District's financial operations.

Cause—The District did not have sufficient resources needed to prepare timely financial statements in accordance with generally accepted accounting principles.

Recommendation—To help ensure that the District provides timely financial information to those that need it and that it complies with State laws, the District should dedicate appropriate resources and establish and adhere to completion dates for all elements of its annual financial and budgeted expenditure limitation reports.

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

This finding is similar to prior year finding 2017-09.

DISTRICT RESPONSE



Gila Pueblo Campus
8274 S. Six Shooter Canyon Rd
P.O. Box 2656
Globe, Arizona 85502-2656
Phone 928-425-8481
Fax 928-425-8492

Payson Campus
201 North Mud Springs Road
P.O. Box 359
Payson, Arizona 85547-0359
Phone 928-468-8039
Fax 928-468-8043

September 12, 2019

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

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* for fiscal year 2019.

Sincerely,



Jay Spehar
Gila Community College District Governing Board President

**Gila County Provisional Community College District
(Gila Community College)
Corrective action plan
Year Ended June 30, 2018**

**Financial statement finding
2018-01
Improve controls over its capital assets**

Anticipated Completion Date: March 2020

District Response: Concur

Corrective Action Planned: The District will develop and implement policies and procedures to maintain and track all capital assets.

**Financial statement finding
2018-02
Improve controls over purchasing**

Anticipated Completion Date: March 2020

District Response: Concur

Corrective Action Planned: The District will review and update existing policies as needed. The District will implement the updated policies to improve the purchasing process and obtain competitive sealed bids and proposals as appropriate.

**Financial statement finding
2018-03
Issue annual financial report in a timely manner**

Anticipated Completion Date: March 2020

District Response: Concur

Corrective Action Planned: The District continues to improve the timing of issuing its annual financial report. The District will review and modify, as needed, the processes and resources used to issue the annual financial report.

