



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

**Yuma/La Paz Counties
Community College
District**

(Arizona Western College)
Year Ended June 30, 2014



Debra K. Davenport
Auditor General

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Yuma/La Paz Counties Community College District
(Arizona Western College)
Single Audit Reporting Package
Year Ended June 30, 2014

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Yuma/La Paz Counties Community College District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Yuma/La Paz Counties Community College District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal

control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Yuma/La Paz Counties Community College District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Supplementary Information—Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014, 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* in considering the District's internal control over financial reporting and compliance.

Debbie Davenport
Auditor General

December 12, 2014

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Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2014

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the District's basic financial statements, which immediately follow.

Basic Financial Statements

The District's annual financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. These statements allow for the presentation in a consolidated, single-column, entity-wide format. This format is similar to the type of financial statements typical of a business enterprise or a not-for-profit organization. The basic financial statements consist of the following:

The Statement of Net Position reflects the financial position of the District at June 30, 2014. It shows the various assets owned or controlled, outflows of resources applicable to future reporting periods, related liabilities and other obligations, and the various categories of net position. Net position is an accounting concept defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, and as such, represents institutional equity or ownership in the District's total assets. Over time, increases or decreases in net position may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position reflects the results of operations and other changes for the year ended June 30, 2014. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net position amount to the ending net position amount, which is shown on the Statement of Net Position described above.

The Statement of Cash Flows presents the inflows and outflows of cash and cash equivalents for the year ended June 30, 2014. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Position described above. In addition, this statement reconciles cash flows from operating activities to operating income/loss on the Statement of Revenues, Expenses and Changes in Net Position described above.

This document's primary focus is on the results of activity for the fiscal year ended June 30, 2014. This Management's Discussion and Analysis (MD&A) uses prior fiscal year information for comparison purposes and illustrates where the District's financial performance may have changed.

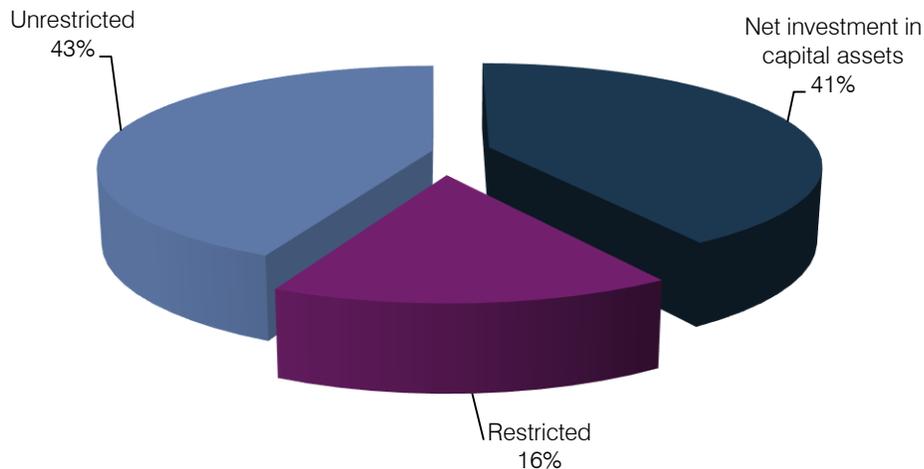
Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Management's Discussion and Analysis
 Year Ended June 30, 2014

Condensed Financial Information

**Net Position—Primary Government
 As of June 30**

	2014	2013
Assets:		
Current assets	\$ 38,808,339	\$ 41,349,779
Noncurrent assets, other than capital assets	293,695	646,134
Capital assets, net	<u>86,659,394</u>	<u>88,123,325</u>
Total assets	<u>125,761,428</u>	<u>130,119,238</u>
 Deferred outflows of resources:	 <u>2,782,319</u>	 <u>0</u>
 Liabilities:		
Other liabilities	4,276,304	4,601,969
Long-term liabilities	<u>67,661,343</u>	<u>66,414,369</u>
Total liabilities	<u>71,937,647</u>	<u>71,016,338</u>
 Net Position:		
Net investment in capital assets	23,150,333	23,363,225
Restricted	8,948,623	10,927,866
Unrestricted	<u>24,507,144</u>	<u>24,811,809</u>
Total net position	<u>\$ 56,606,100</u>	<u>\$ 59,102,900</u>

Percent of Net Position for 2014

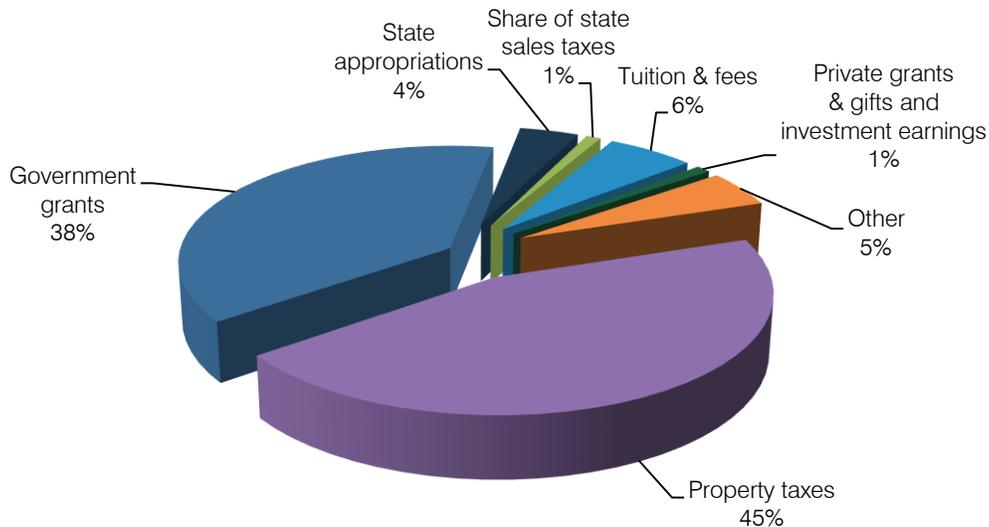


Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2014

**Changes in Net Position—Primary Government
For the Year Ended June 30**

	2014	2013
Revenues		
Operating		
Tuition and fees (net of scholarship allowances)	\$ 3,701,378	\$ 4,129,716
Other (net of scholarship allowances)	3,172,394	3,545,910
Nonoperating		
Property taxes	29,351,193	28,759,961
State appropriations	2,754,400	2,802,600
Government grants	24,940,079	26,034,103
Share of state sales taxes	810,746	664,803
Private grants and gifts	653,654	638,578
Investment earnings	149,197	200,732
Capital appropriations	276,700	0
Capital grants and gifts	<u>50,085</u>	<u>3,972</u>
Total revenues	<u>65,859,826</u>	<u>66,780,375</u>
Expenses		
Operating	64,845,494	63,230,653
Nonoperating	<u>3,511,132</u>	<u>3,096,461</u>
Total expenses	<u>68,356,626</u>	<u>66,327,114</u>
Increase/Decrease in net position	(2,496,800)	453,261
Total net position, July 1	<u>59,102,900</u>	<u>58,649,639</u>
Total net position, June 30	<u>\$56,606,100</u>	<u>\$59,102,900</u>

Percent of 2014 Revenues by Source

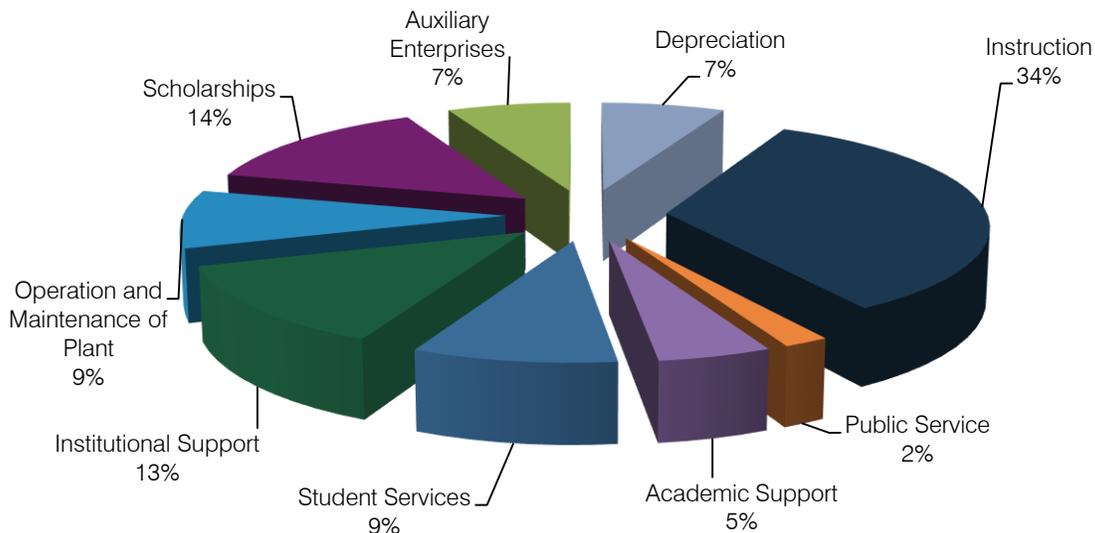


Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Management's Discussion and Analysis
 Year Ended June 30, 2014

**Expenses by Category—Primary Government
 For the Year Ended June 30**

	2014	2013
Operating expenses		
Educational and general:		
Instruction	\$22,467,783	\$21,419,676
Public service	1,000,163	924,460
Academic support	3,213,196	3,228,450
Student services	5,721,212	5,797,393
Institutional support	8,186,067	6,836,269
Operation and maintenance of plant	5,779,270	5,718,381
Scholarships	9,066,854	10,179,027
Auxiliary enterprises	4,768,191	4,315,032
Depreciation	<u>4,642,758</u>	<u>4,811,965</u>
Total operating expenses	<u>64,845,494</u>	<u>63,230,653</u>
Nonoperating expenses		
Interest expense on debt	2,480,675	2,961,632
Other nonoperating expenses	757,237	134,829
Loss on disposal of capital assets	<u>273,220</u>	<u>0</u>
Total nonoperating expenses	<u>3,511,132</u>	<u>3,096,461</u>
Total expenses	<u>\$68,356,626</u>	<u>\$66,327,114</u>

Percent of 2014 Operating Expenses by Category



Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2014

Financial Highlights and Analysis

Financial Position

The District's overall financial position was stable in 2014. Total assets and deferred outflows of resources decreased \$1.6 million from fiscal year 2013 to fiscal year 2014. This decrease is primarily due to decreases in cash and depreciable assets and the reporting of deferred charges on debt refunding as a new line item for the current year. Cash was used to cover increased expenses for the year, the District disposed of certain assets, and the District refunded a portion of its general obligation bonds resulting in a deferred outflow of resources.

Total liabilities increased by \$921,000, which is mostly due to the recording of bond premiums.

Total net position for the District decreased by \$2.5 million from fiscal year 2013 to fiscal year 2014. This decrease is primarily attributable to a decrease in restricted capital projects of \$1.4 million as board-designated dollars were expended on designated projects, a slight reduction in unrestricted net position, and a small reduction in restricted grants and contracts due to the timing of federal grants funding.

The District's financial position remains strong with adequate resources to meet all current obligations.

Results of Operations

The District has four major revenue sources. These are property taxes, tuition and fees, state appropriations, and government grants. These revenues are further identified as operating or nonoperating revenues.

For fiscal year 2014 the District's total revenues and capital appropriations/gifts decreased by \$921,000 from fiscal year 2013. The following revenue sources make up a significant portion of this total decrease:

- Tuition and fees decreased by \$428,000 primarily because of decreased enrollment.
- Other operating revenues decreased \$374,000 primarily because of food service, bookstore, and residence hall decreases based on a lower enrollment.
- Government grants decreased by \$1.1 million because of the timing of grants, which is primarily reimbursement based.
- Property taxes increased by \$591,000 primarily because of increased valuations and increased new construction.
- State appropriations decreased by \$48,000 because of the funding formula for base aid.
- Private grants and gifts, investment earnings, and share of state sales taxes resulted in an increase of \$109,000.
- Capital appropriations increased \$277,000 and capital gifts/grants increased by \$46,000.

Total operating expenses increased by \$1.6 million from fiscal year 2013 to fiscal year 2014. This reflects a \$1.1 million decrease in scholarships primarily because of decreased enrollment; and a \$1 million increase in instruction, a \$1.3 million increase in institutional support, and a \$453,000 increase in auxiliary enterprises

Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2014

due to salary increases and fringe benefit costs. Nonoperating expenses increased by \$415,000 because of the loss on a capital asset of \$273,000 with the demolition of a building in La Paz County, the GASB reclassification of bond issuance costs of \$719,000, and the reduction in debt service interest expense of \$481,000.

Capital Assets and Debt Administration

The District's capital assets, net of accumulated depreciation, totaled over \$86.7 million as of June 30, 2014. Capital assets include land, buildings, improvements other than buildings, equipment, and library books. Additional information on capital assets can be found in detail in Note 3 to the District's basic financial statements.

At June 30, 2014, the District had three general obligation bond issues totaling approximately \$66.3 million. During the year ended June 30, 2014, the District refinanced \$28.7 million of the 2005 and 2006 Series General Obligation Bonds. The District realized net present value savings of \$1.4 million after payment of \$354,000 in underwriting fees and other issuance costs. Additional information on the District's long-term debt can be found in Note 5 to the basic financial statements.

Current Factors Having Probable Future Financial Significance

Voters passed Proposition 301 at the general election on November 7, 2000. The proposition increased the state transaction privilege tax rate six-tenths of 1 percent for 20 years. This increase was to be used for education from K-12 through higher education. Community colleges are to use the funds for workforce development activities. Fiscal year 2014 was the 13th year of this funding, and the District received approximately \$800,000. It is anticipated that the District will continue to receive at least this amount for the next 7 years.

The District refinanced \$16.5 million of the 2005 and 2006 Series General Obligation Bonds on November 25, 2014. The District realized net present value savings of \$926,000 after underwriting fees and other issuance costs. The sale of these bonds will become official on December 23, 2014.

This discussion and analysis is designed to provide a general overview of the Yuma/La Paz Counties Community College District's finances for all those with an interest in such matters. Questions concerning any of the information provided in this Single Audit Reporting Package or requests for additional financial information should be addressed to the Vice President for Finance and Administrative Services, P.O. Box 929, Yuma, AZ 85366.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Net Position—Primary Government
 June 30, 2014

	<u>Business-Type Activities</u>
Assets	
Current assets:	
Cash and investments	\$ 33,300,200
Receivables (net of allowances for uncollectibles):	
Property taxes	1,503,118
Government grants	1,607,569
Interest	48,769
Other	2,135,692
Prepaid items	<u>212,991</u>
Total current assets	<u>38,808,339</u>
Noncurrent assets:	
Restricted assets:	
Property taxes receivable (net of allowances of \$9,084)	293,695
Capital assets, not being depreciated	727,469
Capital assets, being depreciated, net	<u>85,931,925</u>
Total noncurrent assets	<u>86,953,089</u>
Total assets	<u>125,761,428</u>
Deferred Outflows of Resources	
Deferred charges on debt refunding	2,782,319
Liabilities	
Current liabilities:	
Accounts payable	1,011,312
Accrued payroll and employee benefits	1,273,088
Interest payable	1,050,085
Unearned revenues	430,225
Deposits held in custody for others	511,594
Current portion of compensated absences payable	76,830
Current portion of long-term debt	<u>2,670,727</u>
Total current liabilities	<u>7,023,861</u>
Noncurrent liabilities:	
Compensated absences payable	1,272,406
Long-term debt	<u>63,641,380</u>
Total noncurrent liabilities	<u>64,913,786</u>
Total liabilities	<u>71,937,647</u>

(Continued)

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Net Position—Primary Government
 June 30, 2014
 (Continued)

	Business-Type Activities
Net Position	
Net investment in capital assets	\$ 23,150,333
Restricted:	
Nonexpendable:	
Student loans	114,068
Expendable:	
Grants and contracts	2,310,537
Debt service	1,703,844
Capital projects	4,820,174
Unrestricted	24,507,144
Total net position	\$ 56,606,100

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Financial Position—Component Unit
 June 30, 2014

	<u>Arizona Western College Foundation</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 1,261,627
Accounts receivable	1,064
Current portion of note receivable	745
Total current assets	<u>1,263,436</u>
Investments	3,218,186
Property and equipment, net	822,643
Note receivable, less current portion	<u>47,973</u>
Total assets	<u><u>\$ 5,352,238</u></u>
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$ 1,631
Accrued payroll and related liabilities	2,390
Current portion, capital leases	1,042
Rental deposits	10,336
Total current liabilities	<u>15,399</u>
Long-term liabilities	
Capital leases, net of current portion	4,276
Compensated absences payable	<u>13,122</u>
Total liabilities	<u>32,797</u>
Net Assets	
Unrestricted	
Undesignated	1,485,181
Designated	1,117,548
Temporarily restricted	917,412
Permanently restricted	<u>1,799,300</u>
Total net assets	<u>5,319,441</u>
Total liabilities and net assets	<u><u>\$ 5,352,238</u></u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of Revenues, Expenses, and Changes in Net Position—Primary Government
Year Ended June 30, 2014

	<u>Business-Type Activities</u>
Operating revenues:	
Tuition and fees (net of scholarship allowances of \$10,114,394)	\$ 3,701,378
Bookstore income	382,677
Food service income (net of scholarship allowances of \$463,541)	1,765,313
Dormitory rentals and fees (net of scholarship allowances of \$270,779)	474,675
Other	<u>549,729</u>
Total operating revenues	<u>6,873,772</u>
Operating expenses:	
Educational and general:	
Instruction	22,467,783
Public service	1,000,163
Academic support	3,213,196
Student services	5,721,212
Institutional support	8,186,067
Operation and maintenance of plant	5,779,270
Scholarships	9,066,854
Auxiliary enterprises	4,768,191
Depreciation	<u>4,642,758</u>
Total operating expenses	<u>64,845,494</u>
Operating loss	<u>(57,971,722)</u>
Nonoperating revenues (expenses):	
Property taxes	29,351,193
State appropriations	2,754,400
Government grants	24,940,079
Share of state sales taxes	810,746
Private grants and gifts	653,654
Investment earnings	149,197
Interest expense on debt	(2,480,675)
Other nonoperating expenses	(757,237)
Loss on disposal of capital assets	<u>(273,220)</u>
Total nonoperating revenues (expenses)	<u>55,148,137</u>
Income before other revenues, expenses, gains, or losses	(2,823,585)
Capital appropriations	276,700
Capital grants and gifts	<u>50,085</u>
Decrease in net position	(2,496,800)
Total net position, July 1, 2013	<u>59,102,900</u>
Total net position, June 30, 2014	<u>\$ 56,606,100</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Activities—Component Unit
 Year Ended June 30, 2014

	Arizona Western College Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Donations	\$ 41,403	\$ 145,808	\$ 91,494	\$ 278,705
Arizona Western College support	155,811			155,811
Rental income	179,969			179,969
Investment income, net of expenses of \$34,700	35,366	45,469		80,835
Unrealized gains	29,008	42,725		71,733
Realized gains	103,952	191,738		295,690
Other income	1,937			1,937
Net assets released from restrictions	<u>216,811</u>	<u>(137,656)</u>	<u>(79,155)</u>	
Total revenues and support	<u>764,257</u>	<u>288,084</u>	<u>12,339</u>	<u>1,064,680</u>
Expenses				
Program services:				
Arizona Western College contributed salaries	146,424			146,424
Scholarships	146,405			146,405
Noncash donations	21,790			21,790
Rental operations	143,786			143,786
Supporting services:				
Management and general	131,466			131,466
Fundraising	<u>14,785</u>			<u>14,785</u>
Total expenses	<u>604,656</u>			<u>604,656</u>
Changes in net assets	159,601	288,084	12,339	460,024
Net assets at beginning of year, as reclassified	<u>2,443,128</u>	<u>629,328</u>	<u>1,786,961</u>	<u>4,859,417</u>
Net assets, end of year	<u>\$ 2,602,729</u>	<u>\$ 917,412</u>	<u>\$ 1,799,300</u>	<u>\$ 5,319,441</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2014

	<u>Business-Type Activities</u>
Cash flows from operating activities:	
Tuition and fees	\$ 3,441,486
Bookstore receipts	382,677
Food services receipts	1,765,313
Dormitory rentals and fees	474,675
Collection of loans to students	1,992
Other receipts	646,615
Payments to suppliers and providers of goods and services	(14,615,617)
Payments for employee wages and benefits	(36,562,907)
Payments to students for scholarships	(9,066,854)
Net cash used for operating activities	<u>(53,532,620)</u>
Cash flows from noncapital financing activities:	
Property taxes	29,275,925
State appropriations	2,754,400
Government grants	25,048,325
Share of state sales taxes	810,746
Private grants and gifts	653,654
Other nonoperating expenses	(59,082)
Federal direct lending receipts	1,756,223
Federal direct lending disbursements	(1,756,223)
Deposits held in custody for others received	1,437,628
Deposits held in custody for others disbursed	(1,469,068)
Net cash provided by noncapital financing activities	<u>58,452,528</u>
Cash flows from capital and related financing activities:	
Proceeds from issuance of bonds	241,536
Capital appropriations	276,700
Principal paid on capital debt	(2,170,000)
Capital grants and gifts	50,085
Interest paid on capital debt	(2,911,409)
Purchases of capital assets	(3,452,047)
Net cash used for capital and related financing activities	<u>(7,965,135)</u>
Cash flows from investing activities:	
Interest received on investments	<u>171,501</u>
Net cash provided by investing activities	<u>171,501</u>
Net decrease in cash and cash equivalents	(2,873,726)
Cash and cash equivalents, July 1, 2013	<u>36,173,926</u>
Cash and cash equivalents, June 30, 2014	<u>\$ 33,300,200</u>

(Continued)

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Cash Flows—Primary Government
 Year Ended June 30, 2014
 (Continued)

	<u>Business-Type Activities</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (57,971,722)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	4,642,758
Changes in assets and liabilities:	
Increase in:	
Other receivables	(270,523)
Prepaid items	(129,287)
Accounts payable	109,646
Unearned revenues	107,516
Compensated absences payable	59,528
Decrease in:	
Student loans receivable, net	1,992
Accrued payroll and employee benefits	(82,528)
Net cash used for operating activities	<u>\$ (53,532,620)</u>
Noncash transactions	
Refinancing of long-term debt	31,959,107
Gifts of depreciable and non-depreciable assets	55,367
Amortization of premium on bonds	20,727
Expense bond issuance costs	(718,881)

See accompanying notes to financial statements.

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Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Yuma/La Paz Counties Community College District (the District) conform to generally accepted accounting principles applicable to public institutions engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB).

For the year ended June 30, 2014, the District implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and recognized certain other items that were previously reported as assets and liabilities as revenues or expenses.

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) and its discretely presented component unit, the Arizona Western College Foundation (the Foundation).

The Foundation is a legally separate, tax-exempt organization. It acts primarily as a fund-raising organization that receives gifts and bequests, administers those resources, and disburses payments to or on behalf of the District for scholarships and other special projects. Although the District does not control the timing or amount of receipts from the Foundation, the Foundation's restricted resources can only be used by or for the benefit of the District or its constituents. Consequently, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board statements for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the District's respective counterpart financial statements. For financial reporting purposes, only the Foundation's statements of financial position and activities are included in the District's financial statements as required by generally accepted accounting principles for public colleges and universities. The Foundation has a June 30 year-end.

During the year ended June 30, 2014, the Foundation distributed \$146,405 to the District for restricted and unrestricted purposes. During the year, the District was in the second year of a Title V federal grant. During 2013, the Foundation designated \$1,076,857 to meet matching requirements on an irrevocable endowment in compliance with Title V federal guidelines for the

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Dreams to Reality Program. Terms of the endowment require the Foundation to permanently designate contributions as restricted for the purpose of faculty and staff development programs and student scholarships. In addition, the District provided \$155,811 of support to the Foundation during the fiscal year. Complete financial statements for the Foundation can be obtained from the Foundation Office, PO Box 929, Yuma, AZ, 85364-0929.

B. Basis of Presentation and Accounting

The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

A statement of net position provides information about the District's assets, deferred outflows of resources, liabilities, and net position at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net position is classified according to external donor restrictions or availability of assets to satisfy the District's 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. Nonexpendable restricted net position includes gifts that have been received for endowment purposes and federal contributions for the Federal Perkins Loan Program, the corpus of which cannot be expended. Expendable restricted net position represents grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net position consists of all other resources, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in net position provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net position are reported, including capital contributions and additions to endowments. Operating revenues and expenses generally result from exchange transactions. Accordingly, revenues, such as tuition and bookstore, food service, and dormitory charges, in which each party receives and gives up essentially equal values, are considered operating revenues. Other revenues, such as property taxes, state appropriations, and government grants, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered nonoperating expenses.

A statement of cash flows provides information about the District's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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Property taxes are recognized as revenue in the year for which they are levied. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

The effect of internal activity has been eliminated from the financial statements.

When both unrestricted and restricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Cash and Investments

For the statement of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, investments in the State Treasurer's Local Government Investment Pool, and highly liquid investments.

Money market investments and participating interest-earning investment contracts with a remaining maturity of 1 year or less at the time of purchase are stated at cost. All other 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
Land	\$5,000		
Construction in progress	5,000		
Buildings	5,000	Straight-line	20-40 years
Improvements other than buildings	5,000	Straight-line	15 years
Equipment	5,000	Straight-line	5 years
Library books	1	Straight-line	10 years

E. Deferred Outflows

The statement of net position includes separate sections for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense in future periods.

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F. Investment Earnings

Investment earnings is composed of interest, dividends, and net changes in the fair value of applicable investments.

G. Compensated Absences

Compensated absences payable consists of vacation leave employees earned based on services already rendered.

Employees may accumulate up to 330 or 352 hours of vacation depending on years of service, but they forfeit any unused vacation hours in excess of the maximum amount at the end of each fiscal year-end. Upon terminating employment, the District pays all unused and unforfeited vacation benefits to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative, but employees forfeit them upon terminating employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements.

H. Scholarship Allowances

A scholarship allowance is the difference between the stated charge for goods and services the District provides and the amount that the student or third parties making payments on the student's behalf pays. Accordingly, some types of student financial aid, such as Pell grants and scholarships the District awards, are considered scholarship allowances. These allowances are netted against tuition and fees revenues, food service income, and dormitory rentals and fees in the statement of revenues, expenses, and changes in net position.

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. 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.

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Deposits—At June 30, 2014, the total cash on hand was \$7,451, the carrying amount of the District's deposits was \$6,606,735 and the bank balance was \$7,353,575. The District does not have a formal policy with respect to custodial credit risk for deposits.

Investments—At June 30, 2014, the District's investments consisted of the following:

Investment Type	Amount
State Treasurer's investment pool 7	\$ 80,643
County Treasurer's investment pool	13,377,501
U.S. Treasury securities	2,349,737
U.S. agency securities	<u>10,878,133</u>
Total	<u>\$26,686,014</u>

The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's position in the pool approximates the value of that participant's pool shares, and the participant's shares are not identified with specific investments. No comparable oversight is provided for the County Treasurer's investment pool, and that pool's structure does not provide for shares.

Credit risk—The District does not have a formal policy with respect to credit risk. As of June 30, 2014, credit risk for the District's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment pool 7	Unrated	Not applicable	\$ 80,643
County Treasurer's investment pool	Unrated	Not applicable	13,377,501
U.S. agency securities	Aaa/AA+	Moody's/Standard & Poor's	<u>10,878,133</u>
Total			<u>\$24,336,277</u>

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the District will not be able to recover the value of its investments or collateral securities that are in an outside party's possession. The District does not have a formal policy with respect to custodial credit risk.

Concentration of credit risk—The District does not have a formal policy regarding concentration of credit risk. The District had investments at June 30, 2014, of 5 percent or more in the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Bank. These investments were 25 percent, 8 percent, and 8 percent, respectively, of the District's total investments.

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Interest rate risk—As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's policy limits the District's investment portfolio to maturities of 1 to 3 years. At June 30, 2014, the District had the following investments in debt securities:

Investment Type	Amount	Investment Maturities	
		Less than 1 Year	1-3 Years
State Treasurer's investment pool 7	\$ 80,643	\$ 80,643	
County Treasurer's investment pool	13,377,501	13,377,501	
U.S. Treasury securities	2,349,737	500,235	\$1,849,502
U.S. agency securities	10,878,133	4,541,554	6,336,579
Total	<u>\$26,686,014</u>	<u>\$18,499,933</u>	<u>\$8,186,081</u>

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

Cash, deposits, and investments:		Statement of Net Position:	
Cash on hand	\$ 7,451	Cash and investments	\$33,300,200
Amount of deposits	6,606,735		
Amount of investments	<u>26,686,014</u>		
Total	<u>\$33,300,200</u>	Total	<u>\$33,300,200</u>

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 543,607	\$ 25,608		\$ 569,215
Construction in progress	1,969,897	158,254	\$1,969,897	158,254
Total capital assets not being depreciated	<u>2,513,504</u>	<u>183,862</u>	<u>1,969,897</u>	<u>727,469</u>
Capital assets being depreciated:				
Buildings	105,335,532	3,743,436	682,138	108,396,830
Equipment	12,803,035	548,983	205,055	13,146,963
Improvements other than buildings	21,084,089	904,375		21,988,464
Library books	1,640,224	105,320	132,469	1,613,075
Total capital assets being depreciated	<u>140,862,880</u>	<u>5,302,114</u>	<u>1,019,662</u>	<u>145,145,332</u>
Less accumulated depreciation for:				
Buildings	\$ 30,789,963	\$2,498,469	\$ 408,918	\$ 32,879,514
Equipment	10,191,235	1,210,722	205,055	11,196,902
Improvements other than buildings	13,084,409	914,117		13,998,526
Library books	1,187,452	83,482	132,469	1,138,465
Total accumulated depreciation	<u>55,253,059</u>	<u>4,706,790</u>	<u>746,442</u>	<u>59,213,407</u>
Total capital assets being depreciated, net	<u>85,609,821</u>	<u>595,324</u>	<u>273,220</u>	<u>85,931,925</u>
Capital assets, net	<u>\$ 88,123,325</u>	<u>\$ 779,186</u>	<u>\$2,243,117</u>	<u>\$ 86,659,394</u>

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Note 4 - Construction and Other Commitments

The District had major contractual commitments related to various capital projects at June 30, 2014, for the construction of one building, the renovation of two buildings, and one improvement other than buildings on the main campus as follows: Public Safety Institute Building, Kino Dormitory, Theatre, and for paving upgrades. At June 30, 2014, the District had spent \$158,254 on these projects and had remaining contractual commitments with contractors of \$3,391,150. Unexpended Plant Fund resources are financing the Public Safety Institute Building, the renovations to the Theatre, and the paving upgrades, and Auxiliary Fund resources are financing the renovations to the Kino Dormitory.

Note 5 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within 1 year
Compensated absences payable	<u>\$ 1,289,709</u>	<u>\$ 1,231,839</u>	<u>\$ 1,172,312</u>	<u>\$ 1,349,236</u>	<u>\$ 76,830</u>
Bonds payable:					
General obligation bonds	\$64,760,000	\$28,665,000	\$30,835,000	\$62,590,000	\$2,650,000
Premiums	<u>364,660</u>	<u>3,535,643</u>	<u>178,196</u>	<u>3,722,107</u>	<u>20,727</u>
Total long-term debt	<u>\$65,124,660</u>	<u>\$32,200,643</u>	<u>\$31,013,196</u>	<u>\$66,312,107</u>	<u>\$2,670,727</u>

General Obligation Bonds Payable—General obligation bonds payable at June 30, 2014, consisted of the outstanding general obligation bonds presented below. The bonds are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. During the year, the District issued general obligation bonds totaling \$28,665,000 to advance-refund previously issued bonds. Principal and interest on the bonds are payable from an ad valorem tax levied against all the taxable property in the District. The bonds issued are payable from such a tax without limit as to rate or amount.

General obligation bonds outstanding at June 30, 2014, were as follows:

Description	Original Amount Issued	Maturity Ranges	Interest Rates	Outstanding Principal
General obligation bonds—series 2005	\$20,000,000	7/1/2014-30	3.75-5.00%	\$ 8,380,000
General obligation bonds—series 2006	53,850,000	7/1/2014-31	3.75-5.00%	25,545,000
General obligation refunding bonds— series 2014	28,665,000	7/1/2014-25	1.00-5.00%	<u>28,665,000</u>
				<u>\$62,590,000</u>

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General obligation bond debt service requirements to maturity are as follows:

Year ending June 30	Principal	Interest
2015	\$ 2,650,000	\$ 2,334,985
2016	2,455,000	2,509,725
2017	2,575,000	2,392,675
2018	2,690,000	2,295,350
2019	2,770,000	2,199,600
2020-24	15,690,000	9,165,875
2025-29	20,255,000	5,054,838
2030-32	<u>13,505,000</u>	<u>741,656</u>
Total	<u>\$62,590,000</u>	<u>\$26,694,704</u>

During the year ended June 30, 2014, the District issued general obligation bonds with an average interest rate of 4.496 percent to advance-refund older, higher-rate issues with an average interest rate of 4.865 percent. However, the District also realized a premium from the sale of the refunding bonds in the amount of \$3,535,643, which lowers the effective cost of the refunding bonds to 2.536 percent. The District realized net present value savings of \$1,376,416 after payment of \$354,320 in underwriting fees and other issuance costs. The District used these proceeds to purchase securities that it placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased, and related liabilities are not included in the District's financial statements. Details of the refunding transactions are as follows:

Amount of refunding bonds issued	\$28,665,000
Amount of bonds refunded	28,665,000
Reduction in debt service payments	1,559,617
Economic gain	1,376,416

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 participates with seven other Arizona community college districts and more than 200 Arizona school districts in the Arizona School Risk Retention Trust, Inc. (Trust), a public-entity risk pool. The Trust insures the District against liabilities arising from general liability, professional liability, and property, automobile, and commercial crime risks. The coverage limits and deductibles are as follows:

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Coverage	Limit	Deductible
General	\$10,000,000/occurrence	None
	Employer's liability: \$2,000,000/accident or disease	\$500,000/accident or disease
Professional	Administrative practices: \$150,000/claim, \$300,000 aggregate	None
	Criminal legal defense: \$100,000/claim, \$200,000 aggregate	None
Property	Total insurable value: \$111,176,355	\$1,000/occurrence
Automobile	\$10,000,000/occurrence	None
	\$15,000 each person/\$250,000 each accident underinsured/uninsured motorist	
Commercial crime	\$1,500,000/occurrence	\$100/occurrence

The Trust's operating agreement includes a provision for the member to be charged an additional assessment in the event that total claims the Trust pays exceed the members' contributions and reserves in any single year. The District will be charged for any such assessment in the following year. The District also carries commercial insurance for other risks of loss, including workers' compensation, employees' health, accidental death and dismemberment for students and employees, employee travel, and extended reporting for errors and omissions. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

In addition, the District is a member of the Yuma Area Benefit Consortium (Consortium), which provides life insurance, accidental death and dismemberment, disability, basic or major medical coverage for accidents or sicknesses, as well as dental and vision insurance coverage to its employees through the Consortium. The Consortium, currently composed of six members, provides benefits up to \$100,000 per individual per calendar year through a self-funding agreement with its participants and purchases commercial insurance to cover claims in excess of this limit. An independent administrator provides the Consortium with claims and recordkeeping services. The District is responsible for paying the premiums, but may require its employees to contribute a portion of them. The District would be assessed an additional contribution should the Consortium become insolvent. This additional contribution shall not exceed the amount of the District's annual contribution (i.e., premium) and, once made, thereby releases the District from further legal obligations of any type. Should the District withdraw from the Consortium, it would then be responsible for its proportional share of claims run-out costs that exceed the consortium reserves established for the incurred but not reported claims liability. If the Consortium were to terminate, the District would be responsible for its proportional share of any consortium deficit. The District's proportional share upon termination shall not exceed the amount of the District's annual contributions, and once made, it releases the District from all further legal obligations of any type. The District has made no additional contributions to the Consortium in any of the past 3 fiscal years.

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Note 7 - Pension and Other Postemployment Benefits

Plan descriptions—The District contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit plan; and a cost-sharing multiple-employer defined benefit long-term disability plan, all of which the Arizona State Retirement System administers. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. State statute establishes benefits. The Arizona State Retirement System Board governs the system according to the provisions of A.R.S. Title 38, Chapter 5, and Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report is available on its Web site at www.azasrs.gov; by writing the Arizona State Retirement System, 3300 N. Central Ave., P.O. Box 33910, Phoenix, AZ 85067-3910; or by calling (602) 240-2000 or 1-800-621-3778.

Funding policy—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2014, statute required active plan members to contribute at the actuarially determined rate of 11.54 percent (11.3 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.54 percent (10.7 percent for retirement, 0.6 percent for health insurance premium benefit, and 0.24 percent for long-term disability) of the members' annual covered payroll.

The District's contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

Year ended June 30	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2014	\$2,385,898	\$133,789	\$53,493
2013	2,169,335	137,491	50,802
2012	2,045,336	130,553	50,631

Note 8 - Operating Expenses

The District's operating expenses are presented by functional classification in the Statement of Revenues, Expenses, and Changes in Net Position—Primary Government. The operating expenses can also be classified into the following:

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Personal services	\$36,539,907
Contract services	6,194,903
Supplies and other services	2,920,922
Communications and utilities	2,410,436
Scholarships	9,066,854
Depreciation	4,642,758
Other	<u>3,069,714</u>
Total	<u>\$64,845,494</u>

Note 9 - Discretely Presented Component Unit

The District's discretely presented component unit is composed of the Arizona Western College Foundation.

Summary of Significant Accounting Policies

Nature of Activities—Arizona Western College Foundation (the Foundation) provides funding for educational needs and individual scholarships through Arizona Western College and other special projects. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader. The Foundation's offices are located on the campus of Arizona Western College in Yuma, Arizona. The Foundation provides services to residents of Yuma and La Paz counties.

Basis of Accounting—The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recognized and recorded when incurred.

Basis of Presentation—The financial statements are presented in accordance with accounting principles generally accepted in the United States of America. Under such principles, the Foundation reports information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets—Unrestricted Net Assets are those currently available at the discretion of the board of directors for use in the Foundation's operations, in accordance with its bylaws. The Foundation reports its revenue and other support as unrestricted if there are no donor-imposed restrictions limiting its use. Designated net assets are assets that the board of directors have designated for the purpose of matching donated contributions for the Dreams to Reality Program. These assets are held in investments in an endowment fund.

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Temporarily Restricted Net Assets—Temporarily Restricted Net Assets are those contributions subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets are held for scholarships and other program operations.

Permanently Restricted Net Assets—Permanently Restricted Net Assets are those resources subject to a donor imposed restriction that they be maintained permanently by the Foundation. Generally, the donors of these resources permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—The Foundation considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents held for long-term investment purposes are included as investments. At times, cash and cash equivalent balances may exceed federally insured amounts.

Investments—Investments in debt and equity securities are carried at fair value based on quoted market prices. Interest and dividend income is recognized when earned. Realized gains and losses are recognized upon the sales of investments. Unrealized gains and losses are recognized based on changes in the fair values of investments.

Property and Equipment—Assets with a unit cost greater than \$500 are capitalized at historical cost, or estimated historical cost if actual historical cost is not available. Assets donated to the Foundation are recorded at their estimated fair value at the time received. Depreciation on building improvements and furniture and equipment is computed using the straight-line method over the estimated useful lives of the assets. Expenses associated with the repair or maintenance of buildings and improvements, furniture and equipment are not capitalized. Estimated useful lives of property and equipment range from 5 years to 31 years.

Tax-Exempt Status—The Foundation qualifies as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code and is not subject to income taxes. The Foundation is not a private foundation and contributions to the Foundation qualify as charitable deductions by the contributor. As of June 30, 2014, no uncertain tax positions have been identified and accordingly, no provision has been made. As of June 30, 2014, tax years 2011 through 2013 remain subject to examination by major tax jurisdictions.

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Reclassifications—During 2014, the Foundation determined that a portion of the Foundation's net assets should be classified as designated and temporarily restricted. The beginning net asset classifications have been corrected to reflect the amount determined to be designated and restricted as of June 30, 2013.

Fair Value Measurements

Financial accounting standards define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy which prioritizes valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes valuation techniques used to measure fair value into three broad levels:

Level 1 assets use quoted prices in active markets for identical assets that the Foundation has the ability to access (e.g., prices derived from New York Stock Exchange, NASDAQ or Chicago Board of Trade).

Level 2 assets are valued based on quoted market prices for similar assets within active or inactive markets or information other than quoted market prices observable through market data for substantially the full term of the asset.

Level 3 assets are valued based on inputs other than quoted market prices that reflect assumptions about the asset that market participants would use when performing the valuation based on the best information available in the circumstances.

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The following tables sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2014:

	Level 1	Level 3	Total
June 30, 2014			
Equities	\$1,240,458		\$1,240,458
U.S. government bonds	243,039		243,039
Corporate bonds	1,111,803		1,111,803
Mutual funds	150,978		150,978
Mutual funds—debt securities	66,737		66,737
Mutual funds—equity securities	261,714		261,714
Real estate (REIT and other)	<u>143,457</u>		<u>143,457</u>
Total investments	<u>3,218,186</u>		<u>3,218,186</u>
Note receivable		<u>\$48,718</u>	<u>48,718</u>
Total assets, June 30, 2014	<u>\$3,218,186</u>	<u>\$48,718</u>	<u>\$3,266,904</u>

Level 3 assets include auction rate securities, which are carried at \$0 as there was no identifiable market for the securities. The land classified as level 3 at June 30, 2013 is recorded at its donated value and was sold during the year ended June 30, 2014.

The following table sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the year ended June 30, 2014:

Balances at beginning of year	\$100,169
Sale of land	(80,000)
Donation of note receivable	50,000
Principal payments of note receivable	<u>(21,451)</u>
Balances at end of year	<u>\$ 48,718</u>

Note Receivable

During the year ended June 30, 2012, the Foundation received a donation of a note receivable, collateralized by a deed of trust on residential real estate. The loan is collectible in monthly installments of \$837 including interest at 4% per annum through January, 2018. The note was paid in its entirety during 2014.

During the year ended June 30, 2014, the Foundation sold land originally held as a permanently restricted investment. The Foundation entered into an agreement with the buyer to finance a portion of the purchase price. The loan is collectible in monthly installments of \$299 including interest at 6% per annum through June, 2020 with a remaining balance due at maturity of \$43,913. The outstanding balance on the note at June 30, 2014 is \$48,718.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2014

Property and Equipment

Property and equipment as of June 30, 2014, consists of the following:

Building and improvements	\$1,175,411
Furniture and equipment	<u>9,491</u>
	1,184,902
Less: accumulated depreciation	<u>(616,999)</u>
	567,903
Land	<u>254,740</u>
Net property and equipment	<u>\$ 822,643</u>

Capital Lease Obligations

On September 30, 2013, the Foundation entered into a capital lease agreement for the acquisition of a copier. The obligation has an interest rate of 7% payable in monthly installments of \$125 through December 2018. Future minimum lease payments under this lease are as follows:

June 30	<u>Amount</u>
2015	\$1,381
2016	1,381
2017	1,381
2018	1,381
2019	<u>690</u>
Total payment	6,214
Less amount representing interest	<u>896</u>
Total principal	5,318
Less: current portion	<u>1,042</u>
Long-term portion	<u>\$4,276</u>

Assets acquired under capital leases are recorded at \$6,052 and the accumulated depreciation on these assets as of June 30, 2014 was \$1,142.

Concentrations

The Foundation relies on support from Arizona Western College for a significant portion of its operating expenses for services performed by the Foundation. The loss of such support could have a material impact on the operations of the Foundation.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2014

Board-Designated Net Assets and Endowments

Designated Net Assets—During the year ended June 30, 2013, Arizona Western College Foundation designated \$1,076,857 to meet matching requirements on an irrevocable endowment established by Arizona Western College in compliance with Title V Federal guidelines for the Dreams to Reality Program. Terms of the endowment require the Foundation to permanently designate contributions as restricted for the purpose of faculty and staff development programs and student scholarships.

Of the allowable amount that may be expended annually in compliance with Title V Federal guidelines, 50% shall be returned to principal and reinvested, 45% shall be distributed for the purposes designated by the Foundation, and 5% shall be transferred to the Foundation for administrative costs. No endowment earnings may be expended until October 1, 2016, and only endowment earnings on the donor's portion may be expended until October 1, 2031.

The composition of and changes in the board designated endowment assets for the year ended June 30, 2014 were as follows:

Balance, beginning of year as reclassified	\$ 994,578
Investment earnings	<u>122,970</u>
Balance, end of year	<u>\$1,117,548</u>

Donor Restricted Endowments—The Arizona Western College Foundation stewards donor restricted endowment funds established by donor request for the purpose of student scholarships. Net assets of the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Foundation has interpreted the state's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of the gifts to the permanent endowments, and accumulated earnings that are required to be classified as permanently restricted based on donor stipulations. The remaining portion of a donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$0 as of June 30, 2014.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2014

Return Objectives and Risk Parameters, Investment, and Spending Policies—The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to scholarships supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of the donor-restricted scholarship funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of a moderate allocation model.

The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through equity-based investments (realized and unrealized capital appreciation and dividends) and bonds (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent constraints. Distribution of endowment funds is consistent with donor instructions for scholarship disbursement.

The Foundation's policy for appropriation on donor-restricted endowments is to approve spending as part of the annual budget process approved by the Board of Directors. Individual scholarship decisions are made by the board appointed Scholarship Committee.

The summary of changes in endowment fund balances for the years ended June 30, 2014 follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance as of June 30, 2013, as reclassified	\$ 434,941	\$1,786,961	\$2,221,902
Correction to unrestricted net assets	108,074		108,074
Contributions	145,808	91,494	237,302
Endowment adjustments	(62,007)		(62,007)
Investment return:			
Investment income	66,260		66,260
Investment expenses	(20,791)		(20,791)
Realized gains	191,738		191,738
Unrealized gains	42,725		42,725
Total investment return	<u>471,807</u>	<u>91,494</u>	<u>563,301</u>
Appropriations	(137,656)	(79,155)	(216,811)
Balance as of June 30, 2014	<u>\$ 769,092</u>	<u>\$1,799,300</u>	<u>\$2,568,392</u>

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2014

Temporarily Restricted

The components of temporarily restricted net assets at June 30, 2014, are as follows:

Endowments	\$769,092
Other investments	<u>148,320</u>
Total temporarily restricted net assets	<u>\$917,412</u>

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Supplementary Information

**Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 912	Environmental Quality Incentives Program		Xerces Society for Invertebrate Conservation	None	\$ 497	
Department of the Interior						
15 808	US Geological Survey—Research and Data Collection				16,361	
Department of Justice						
16 525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus				55,214	
Department of Labor						
17 258	WIA Adult Program	WIA Cluster	Yuma Private Industry Council, Inc	A2013-07-01/Adult	173,353	
17 259	WIA Youth Activities	WIA Cluster	Yuma Private Industry Council, Inc	A2013-07-01/ISY, A2013-07-01/OSY10, AH2014-05-20	211,377	
17 260	WIA Dislocated Workers	WIA Cluster	Yuma Private Industry Council, Inc	A2013-07-01/DW	66,777	
	<i>Total WIA Cluster</i>				451,507	
	Total Department of Labor				451,507	
National Science Foundation						
47 041	Engineering Grants				16,896	
47 076	Education and Human Resources				2,400	
	Total National Science Foundation				19,296	
Small Business Administration						
59 037	Small Business Development Centers		Maricopa County Community College District	1-603001-Z-0104, PO#488883, PO#487642, PO#492137, 3-603001-Z-0003S, SBAHQ-13-B-0061/0003, 4-603001-EZ-0025, SBAHQ-14-B-0050, PO#497460	122,040	
Department of Education						
84 007	Federal Supplemental Educational Opportunity Grants	Student Financial Assistance Cluster			384,214	
84 033	Federal Work-Study Program	Student Financial Assistance Cluster			268,393	
84 063	Federal Pell Grant Program	Student Financial Assistance Cluster			17,191,917	
84 268	Federal Direct Student Loans	Student Financial Assistance Cluster			1,756,223	
	<i>Total Student Financial Assistance Cluster</i>				19,600,747	
84 031	Higher Education—Institutional Aid				3,984,153	\$ 507,868
84 042	TRIO—Student Support Services	TRIO Cluster			314,341	
84 044	TRIO—Talent Search	TRIO Cluster			253,144	
84 047	TRIO—Upward Bound	TRIO Cluster			277,668	
	<i>Total TRIO Cluster</i>				845,153	

See accompanying notes to schedule.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2014

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
84 048	Career and Technical Education—Basic Grants to States		Arizona Department of Education	13FCTDBG-370521-01A, 14FCTDBG-470521-01A	270,732	
84 051	Career and Technical Education—National Programs		Arizona Department of Education	14FCTPSG-470521-02A	4,762	
84 149	Migrant Education—College Assistance Migrant Program				<u>447,029</u>	
	Total Department of Education				<u>25,152,576</u>	<u>507,868</u>
	Total expenditures of federal awards				<u>\$ 25,817,491</u>	<u>\$ 507,868</u>

See accompanying notes to schedule.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Yuma/La Paz Counties Community College District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2014 *Catalog of Federal Domestic Assistance*.



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
Yuma/La Paz Counties Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Yuma/La Paz Counties Community College District as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 12, 2014. Our report includes a reference to other auditors who audited the financial statements of the Arizona Western College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. However, the financial statements of the Arizona Western College Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Arizona Western College Foundation.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-01, 2014-02, and 2014-03 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-04 and 2014-05 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Yuma/La Paz Counties Community College District's Response to Findings

Yuma/La Paz Counties Community College District's responses to the findings identified in our audit are presented on pages 43 through 45. 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.

Debbie Davenport
Auditor General

December 12, 2014



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance

Members of the Arizona State Legislature

The Governing Board of
Yuma/La Paz Counties Community College District

Report on Compliance for Each Major Federal Program

We have audited Yuma/La Paz Counties Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Yuma/La Paz Counties Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of the Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Debbie Davenport
Auditor General

December 12, 2014

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2014

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified	
	Yes	No
Internal control over financial reporting:		
Material weaknesses identified?	<u>X</u>	___
Significant deficiency identified?	<u>X</u>	___
Noncompliance material to the financial statements noted?	___	<u>X</u>

Federal Awards

Internal control over major programs:		
Material weaknesses identified?	___	<u>X</u>
Significant deficiencies identified?	___	<u>X</u> (None reported)
Type of auditors' report issued on compliance for major programs:		Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	___	<u>X</u>
Identification of major programs:		

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
	TRIO Cluster
84.042	TRIO—Student Support Services
84.044	TRIO—Talent Search
84.047	TRIO—Upward Bound

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2014

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Yes No

Auditee qualified as low-risk auditee? — X

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])? — X

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Financial Statement Findings

2014-01

The District should improve access controls over its information technology systems

Criteria: The District's information technology (IT) systems process and store information and data that is vital to its daily operations. Therefore, the District should have adequate written internal control policies and procedures to control access to its IT systems, including its network, IT infrastructure, system software, and system information and data.

Condition and context: The District did not have policies and procedures in place for periodically reviewing employees' user access accounts to ensure their access remained necessary and appropriate. Specifically, auditors noted that the District allowed terminated employees access to its network and financial information systems software and data and allowed an excessive number of generic and administrator access accounts that various employees could use to gain access. In addition, the District did not have policies and procedures to periodically review remote users' access rights. Remote access allows authorized users to access network resources from locations other than District buildings. Auditors identified three users with network and system software remote access that was not necessary for their job responsibilities. Further, the District did not have documented policies and procedures to restrict access to its data center and periodically review assigned access. Auditors identified two employees with access to the data center that was not necessary for their job responsibilities. Finally, the District did not have adequate network password policies because passwords, including those for administrator accounts, were set to never expire, and the District's network lockout procedures did not conform to IT best practices.

Effect: There is an increased risk that the District may not adequately prevent or detect unauthorized use, damage, loss, or manipulation of programs, information and data, including sensitive and confidential information.

Cause: The District focused its efforts on the day-to-day operations and did not prioritize its review of IT policies and procedures to ensure they met IT standards and best practices.

Recommendation: To help prevent and detect unauthorized access to its network and financial information systems software and data and unauthorized use, damage, or loss of information, the District should establish policies and procedures that include the following:

- Performing a periodic, comprehensive review of all existing employee access accounts to ensure that network and information system access granted is needed and compatible with job responsibilities.
- Removing employees' network and financial information systems access immediately upon their terminations.
- Reviewing all system generic and administrator access accounts to eliminate or minimize their use when possible.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

- Reviewing employees' network and financial information systems access immediately when their job responsibilities change to ensure access granted is compatible with their new job responsibilities.
- Restricting data center access to employees who need it for their job responsibilities and periodically reviewing access granted to ensure that it continues to be needed.
- Strengthening network password policies by requiring employees to change passwords on a periodic basis and by developing a reasonable account lockout threshold for incorrect password attempts.

2014-02

The District should improve its information systems change management processes

Criteria: The District's IT systems process and store information that is vital to its daily operations. Therefore, the District should have adequate written change management internal control policies and procedures to track and document changes made to its IT systems, including its network, IT infrastructure, system software, and system information and data.

Condition and context: The District's written policies and procedures for managing changes to its IT systems lacked critical elements. For instance, the District's policy did not include a process for documenting the complexity of a change or for testing and reviewing a change prior to being implemented. Also, it did not require documenting approval of all changes prior to them being put into operations. In addition, the District did not ensure adequate separation of system change responsibilities so that no one person had complete control over the process and did not ensure that unauthorized changes were prevented. Further, the District's written change management policies and procedures were not sufficiently detailed to address installation of operating system software and third-party software patches and configuration of IT infrastructure and critical operating systems, including configuration of servers, routers, switches, and other critical network infrastructure. Lastly, although the District had a process to document changes to its critical IT infrastructure equipment, it did not maintain documentation of any changes made during the year.

Effect: There is an increased risk that changes to the systems and IT infrastructure and critical systems could have unintended results without proper documentation, authorization, review, testing, and approval prior to implementation.

Cause: The District developed change management policies and procedures in the previous fiscal year in response to deficiencies found in prior audits. However, it did not adequately address certain critical elements noted in the condition and context section.

Recommendation: To help prevent and detect unauthorized modifications to its network and systems hardware, software, and data, the District should implement a procedure to ensure unauthorized changes are not put into operations.

Further, the District should follow its existing change management policies and procedures and ensure all changes are properly documented, authorized, reviewed, tested, and approved prior to implementation.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Finally, the District should evaluate its existing policies and procedures to ensure they are sufficiently detailed to address:

- Tracking and reconciling all changes to information systems, hardware, software, and the network.
- Separating the responsibilities for developing and implementing changes from the responsibilities of authorizing, reviewing, testing, and approving changes for implementation.
- Testing and authorizing third-party software patches.
- Testing, authorizing, and storing configuration for servers, routers, switches, and other critical IT infrastructure.
- Developing procedures to back out changes that negatively impact the IT systems.

2014-03

The District should improve its policies and procedures over its information technology systems

Criteria: The District's IT systems process and store information and data that is vital to its daily operations. Therefore, the District should have adequate written internal control policies and procedures over security and management of its IT systems, including its network, IT infrastructure, system software, and system information and data.

Condition and context: The District did not have sufficient written policies and procedures over IT security and management. Specifically, the District's policies and procedures did not adequately address the following:

- Identifying and classifying data by sensitivity and taking appropriate action to further protect identified sensitive information. While the District had a process to approve access to specific financial information system data, its written policies and procedures were not sufficient to address appropriate access for an employee's job responsibilities. Further, auditors discovered sensitive network information that was unsecured and potentially accessible by students and employees.
- Logging and monitoring wireless activity, remote access, and unauthorized access, as well as user and system activity on its network and systems software. Certain users whose activities should have been monitored had the ability to edit or delete their activities recorded on the logs.
- Security standards for employee-owned personal computers used to access the District's network remotely.
- Monitoring employee-owned electronic devices that access the District's network and data. Employees may use their own electronic device, such as a tablet, computer, or phone, to connect to the District's network; however, there was no process to approve and monitor use of electronic devices and no guidance to ensure the proper usage and security of the devices and the District's data.
- Installing software on employee workstations. Specially, while there was a standard form for employees to use when requesting specific software, there was no written policy or guidance to identify what software is appropriate, and there was no process to monitor for unauthorized software. In addition, several employees could circumvent using the standard form and install any software on their

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

workstations because they had elevated administrator rights despite policies and procedures prohibiting such rights and access. As a result, certain employees had the ability to modify system settings and install software without approval that could have potentially affected the workstation's security.

- Protocols for incident response should any security issues arise.
- Guidelines for IT staff to follow when performing network configuration reviews such as reviews of firewalls.
- A formal process to ensure continuous IT training provided to the District's IT staff is sufficient and security awareness training for the District's employees.
- Ensuring workstation operating systems are updated and supported by the vendor. Auditors noted a significant number of workstations with operating systems that the vendor no longer supported.
- A process to disable unused Ethernet ports, including those in public areas, and protect its IT resources, such as network, data, and Internet access, from being used for inappropriate or illegal activities.

Effect: There is an increased risk of unauthorized or inappropriate access to the District's IT systems, and confidential information may be inappropriately shared or data may be manipulated.

Cause: The District focused its efforts on the day to day operations and did not prioritize its review of IT policies and procedures to ensure they met IT standards and best practices.

Recommendation: To help prevent and detect unauthorized or unallowable access to its IT systems, the District should strengthen its existing IT security and management policies and procedures to be in line with IT best practices and should consider and address the following:

- Identifying and classifying all system information and data based on sensitivity, taking appropriate action to further secure sensitive information and data, and educating its system users about their responsibilities to protect that information.
- Logging and monitoring key user and system activities, including the activities of users who access the network wirelessly or remotely to ensure there is only authorized access to the District's major IT systems.
- Requiring security standards for employees' personal computers used to remotely access the District's network.
- Managing personal electronic devices connected to the District's network.
- Establishing guidelines for the appropriate installation of software on employee workstations and monitoring software installed on their workstations.
- Establishing a formal incident response plan that addresses reporting, monitoring, and documenting incidents and providing incident response training for IT staff to be prepared if a critical security issue affects the network.
- Establishing guidelines for IT staff to follow when reviewing network configurations, such as firewalls; implementing a process to disable unused Ethernet ports; and protecting its IT resources from being used for inappropriate or illegal activities.
- Ensuring continual IT training for the District's IT staff, as well as developing and providing periodic, mandatory, district-wide training for all employees covering overall IT systems policies and procedures, especially security awareness.

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(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

- Performing a comprehensive review of its IT policies and procedures against IT standards and best practices to identify any gaps or areas for improvement.

2014-04

The District should improve its disaster recovery plan and data backup procedures for its information systems

Criteria: It is critical that the District have a comprehensive disaster recovery plan in place to provide for the continuity of operations and to ensure that it can recover information in the event of a system or equipment failure or other system interruption.

Condition and context: Auditors reviewed the District's disaster recovery plan in place during the fiscal year and determined it lacked certain key elements related to restoring operations, including critical business processes. Specifically, the plan did not contain:

- An analysis and prioritization of recovery for key business systems, including acceptable time frames for restoring critical business processes.
- Detailed procedures for moving operations to a separate site should a disaster render the data center at the Yuma, Arizona, campus inoperable.

In addition, although the plan included information on training staff about how to respond during a system or equipment failure or other system interruption, the District did not provide regular training to ensure staff would be prepared.

Lastly, while the District backs up its data, it did not test the backup data on a regular basis, and it did not have written policies and procedures detailing the data backup procedures, including restoring the systems using the backup data in an emergency.

Effect: The District risks the ability to recover financial data and student information and conduct daily operations during an equipment failure or other system interruption, which could cause inaccurate or incomplete system data and information, expensive recovery efforts, and financial losses.

Cause: The District was unaware its plan lacked key components and did not evaluate its plan against current IT standards and best practices.

Recommendation: To help ensure the continuity of the District's operations in the event of a system or equipment failure or other system interruption, the District should:

- Conduct a business impact analysis to evaluate the impact disasters could have on its critical business processes and revise its disaster recovery plan to include the results of the analysis.
- Develop procedures for migrating critical infrastructure to a separate site.
- Develop and implement a training schedule for staff responsible for implementing the plan.

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- Implement a procedure to test its backup data on a regular basis and improve its existing written policies and procedures to ensure they are sufficiently detailed to address backing up and restoring data.

2014-05

The District should follow its policies and procedures when preparing financial statements

Criteria: The District should follow its established policies and procedures when preparing its financial statements to ensure it prepares them in accordance with U.S. generally accepted accounting principles (GAAP). Accurate financial statements provide valuable information to those charged with governance, management, and other financial statement users, to make important decisions about the District's financial operations.

Condition and context: The District did not follow its policies and procedures to ensure its financial statements were prepared in accordance with GAAP. Specifically, the District:

- Misclassified \$2.8 million of net position between the net investment in capital assets and restricted classifications on its Statement of Net Position.
- Overstated payments to suppliers and providers of goods and services and understated payments to students for scholarships by \$18.1 million on its Statement of Cash Flows.
- Did not disclose \$32 million in noncash transactions for its defeasance of bonds on its Statement of Cash Flows.

Effect: The District's financial statements were not initially prepared in accordance with GAAP. The District made recommended audit adjustments to the financial statements for all significant errors and misclassifications.

Cause: Due to staffing shortages during the year, management was unable to spend the appropriate amount of time reviewing the financial statements and supporting schedules for accuracy and compliance with GAAP.

Recommendation: The District should follow its established policies and procedures when preparing its financial statements. In addition, the District should strengthen its procedures by requiring a thorough review of all data and schedules supporting the financial statements by someone who is independent of the person preparing the financial statements and knowledgeable of the District's operations and reporting requirements. This will help ensure the District prepares its financial statements and related note disclosures in accordance with GAAP.

Federal Award Findings and Questioned Costs

None reported.



December 12, 2014

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 the U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the corrective action planned and the anticipated completion date for each audit finding included in the current year's Schedule of Findings.

Sincerely,

Carole T. Coleman
Vice President for Finance and Administrative Services

/kmv

Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective Action Plan
Year Ended June 30, 2014

Financial Statement Findings

2014-01

The District should improve access controls over its information systems

Corrective Action Plan:

The District shall perform and document quarterly comprehensive reviews of Active Directory, including standard user account as well as service and user accounts with privileged access. Physical access to the data center will also be reviewed quarterly.

The District will implement automatic password expiration in Active Directory requiring all users to change their passwords every 90 days. This includes administrative accounts. This will be implemented on or before March 31, 2015.

2014-02

The District should improve its information systems change management processes

Corrective Action Plan:

The District shall fully document, via its change management system, changes to servers and critical network equipment, which includes written approval prior to implementation. This includes hardware configuration changes and software patch management along with a rollback strategy for each critical change. This will be implemented on or before April 30, 2015.

2014-03

The District should improve its policies and procedures over information technology

Corrective Action Plan:

The District shall modify its wireless network infrastructure to ensure only college owned and managed devices can connect to the internal wireless network. All other devices will only be able to connect to a public "BYOD" wireless network, separate from the internal network. This network is treated as an untrusted outside network and held to the same firewall restrictions as all other Internet clients.

The District shall perform and document monthly firewall configuration and remote access reviews.

The District shall formalize policies and procedures covering such topics as user access, wired and wireless network access and incident response.

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Corrective Action Plan
Year Ended June 30, 2014

The District shall perform a comprehensive discovery and shutdown of unused network ports. A new policy will be implemented that requires all requests for enabling ports to be documented and approved/denied via the change management system.

The network modification, firewall configuration, remote access reviews and the formalization of policies and procedures will be implemented on or before April 30, 2015.

The comprehensive discovery and shutdown of unused network ports and new policy will be implemented on or before June 30, 2015.

2014-04

The District should improve its disaster recovery plan and data backup procedures for its information systems

Corrective Action Plan:

The Disaster Recovery and Business Continuity Plan will be expanded to include a business impact analysis and a detailed process for restoring critical business services at a separate site.

Backup and recovery procedures will be formalized and included in this Plan. Backup media will be tested monthly and the results documented.

The Emergency Operations Center will meet regularly to review the DR/BC Plan and provide training for staff. This will be implemented on or before April 30, 2015.

2014-05

The District should follow its policies and procedures when preparing financial statements

Corrective Action Plan:

The District shall follow its established policies and procedures when preparing its financial statements. Also the District will have all data and schedules supporting the financial statements reviewed by an individual independent of the person preparing the financial statements. The District will ensure its financial statements are prepared in accordance with GAAP. This change was implemented in December, 2014.