A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Pinal County Community College District

(Central Arizona College)

Year Ended June 30, 2014

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

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Pinal County Community College District
(Central Arizona College)
Single Audit Reporting Package
Year Ended June 30, 2014

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Pinal County Community College District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Pinal County 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

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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 Pinal County 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 viii 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 January 30, 2015, 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

January 30, 2015

Pinal County Community College District
(Central Arizona College)
Management's Discussion and Analysis
Year Ended June 30, 2014

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

Basic Financial Statements

The District's annual financial statements are presented in accordance with the Government 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. In accordance with GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, the District reports as a component unit those organizations that raise and hold economic resources for the direct benefit of the District. Based on GASB Statement No. 39, the District has one component unit, the Central Arizona College Foundation, Inc. (Foundation). The Foundation is audited separately from the District, and its financial activity is presented in conjunction with the District's financial statements.

Information on the component unit can be found in the report in the component unit's Statement of Financial Position and Statement of Activities, as well as Note 10. Management's Discussion and Analysis focuses only on the District and does not address the component unit.

The Statement of Net Position reflects the financial position of the District at June 30, 2014. The statement shows the District's assets, deferred outflows and inflows of resources, liabilities, and net position. Net position reflects the institutional equity in the District's total assets.

The Statement of Revenues, Expenses, and Changes in Net Position reflects the results of operations and changes for the fiscal year ended June 30, 2014. This statement reports revenues and expenses, categorized as operating and nonoperating, special and extraordinary items, and the changes in net position for the year.

The Statement of Cash Flows reflects the cash and cash equivalent inflows and outflows for the year ended June 30, 2014. It shows cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It also provides for a reconciliation of beginning and ending cash and cash equivalent balances for the year and a reconciliation of the cash flows from operating activities to the operating loss as reported on the Statement of Revenues, Expenses, and Changes in Net Position.

Condensed Financial Information

Net Position—Primary Government

	As of June 30, 2014	As of June 30, 2013
Assets:		
Current assets	$ 45,475,892	$ 48,084,136
Noncurrent assets, other than capital assets	2,468,232	4,022,466
Capital assets, net	163,804,208	162,808,838
Total assets	211,748,332	214,915,440
Liabilities:		
Long-term liabilities	105,761,001	110,408,387
Other liabilities	2,777,268	4,539,745
Total liabilities	108,538,269	114,948,132
Net position:		
Net investment in capital assets	60,212,992	54,487,137
Restricted	5,812,903	10,016,468
Unrestricted	37,184,168	35,463,703
Total net position	$103,210,063	$ 99,967,308

Financial Highlights and Analysis

Total assets decreased by $3.2 million in the fiscal year ending June 30, 2014, largely because of the spending down of some reserves for new construction and renovation of existing buildings throughout the District as well as a decrease in government grants and contracts receivables. Total liabilities decreased by $6.4 million primarily because of a decrease in liabilities associated with new construction and renovation and the reduction of current year debt service payments. Total net position increased by $3.2 million (3.2 percent) in fiscal year 2014 compared with an increase of $2.8 million (2.9 percent) over the previous year. Total current assets decreased by $2.6 million mainly because of budgeted expenditure of reserves for new construction and renovation of existing buildings, which in turn increased the amount invested in capital assets. Total unrestricted net position increased by $1.7 million, mainly because of actual unrestricted revenue exceeding budgeted revenue.

Changes in Net Position—Primary Government

	Year Ended June 30, 2014	*Year Ended June 30, 2013*
Operating revenues	$ 6,205,327	$ 7,330,131
Operating expenses	65,229,663	63,505,946
Operating loss	(59,024,336)	(56,175,815)
Nonoperating revenues less expenses	62,267,091	58,940,589
Income before other revenues, expenses, gains, or losses	3,242,755	2,764,774
Capital gifts and grants		25,999
Increase in net position	3,242,755	2,790,773
Net position, beginning of year	99,967,308	97,176,535
Net position, end of year	$103,210,063	$ 99,967,308

During fiscal year 2014, there was an increase in total revenues of $2.2 million when compared with the prior year. Property tax revenues increased by $5.1 million because of an increase in the primary and secondary property tax rates of 0.28 percent and 0.009 percent, respectively. The primary assessed values and secondary assessed values both increased approximately 8 percent for fiscal year 2014. Operating revenues decreased by $1.1 million mainly because of decreases in student enrollment. Government and private grants and contracts decreased $1.9 million primarily because of a $1.6 million decrease in award amounts expended for student programs in U.S. Department of Education grant funds.

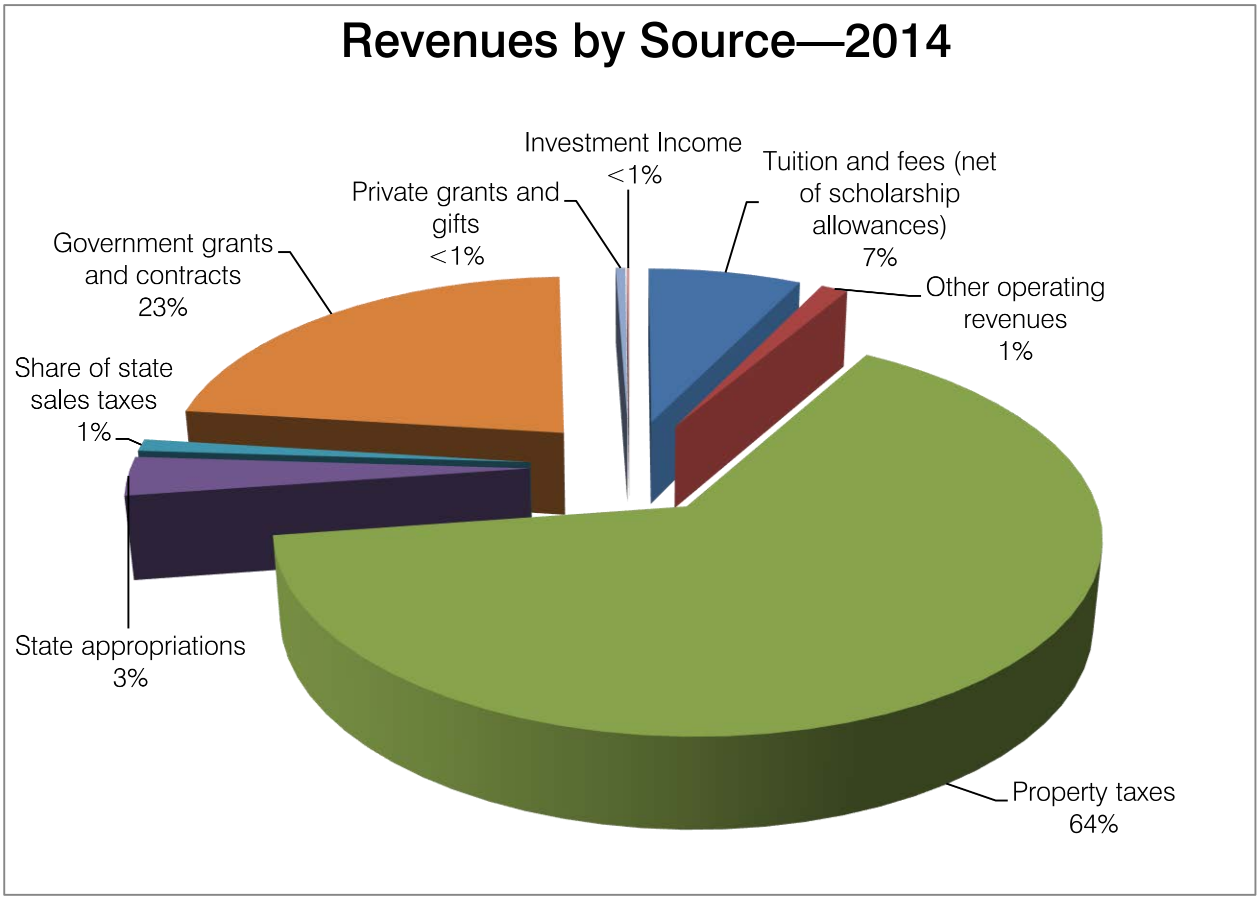
State appropriations remained fairly consistent from the prior year as predicted. Investment income decreased by 62.2 percent because reserve cash balances were used to complete construction and renovation projects after the balance of the 2012 general obligation bond proceeds were used.

Total expenses increased by 2.6 percent as compared with the prior year primarily because of an increase in depreciation expense, as well as overall increases in the operation and maintenance and student services functions. The college also had decreases in scholarships. The increase in depreciation expense is due to additional construction projects being completed and beginning the deprecation of these projects. The increase in the operation and maintenance function was due primarily to the college opening of the new San Tan campus. The increase in the student services function was due primarily to budgeted increases in various student support services needed at the newer campuses. Scholarship expense decreased because of less available funding.

The following is a summary of revenues for fiscal years ended June 30, 2014 and June 30, 2013:

Revenues by Source—Primary Government

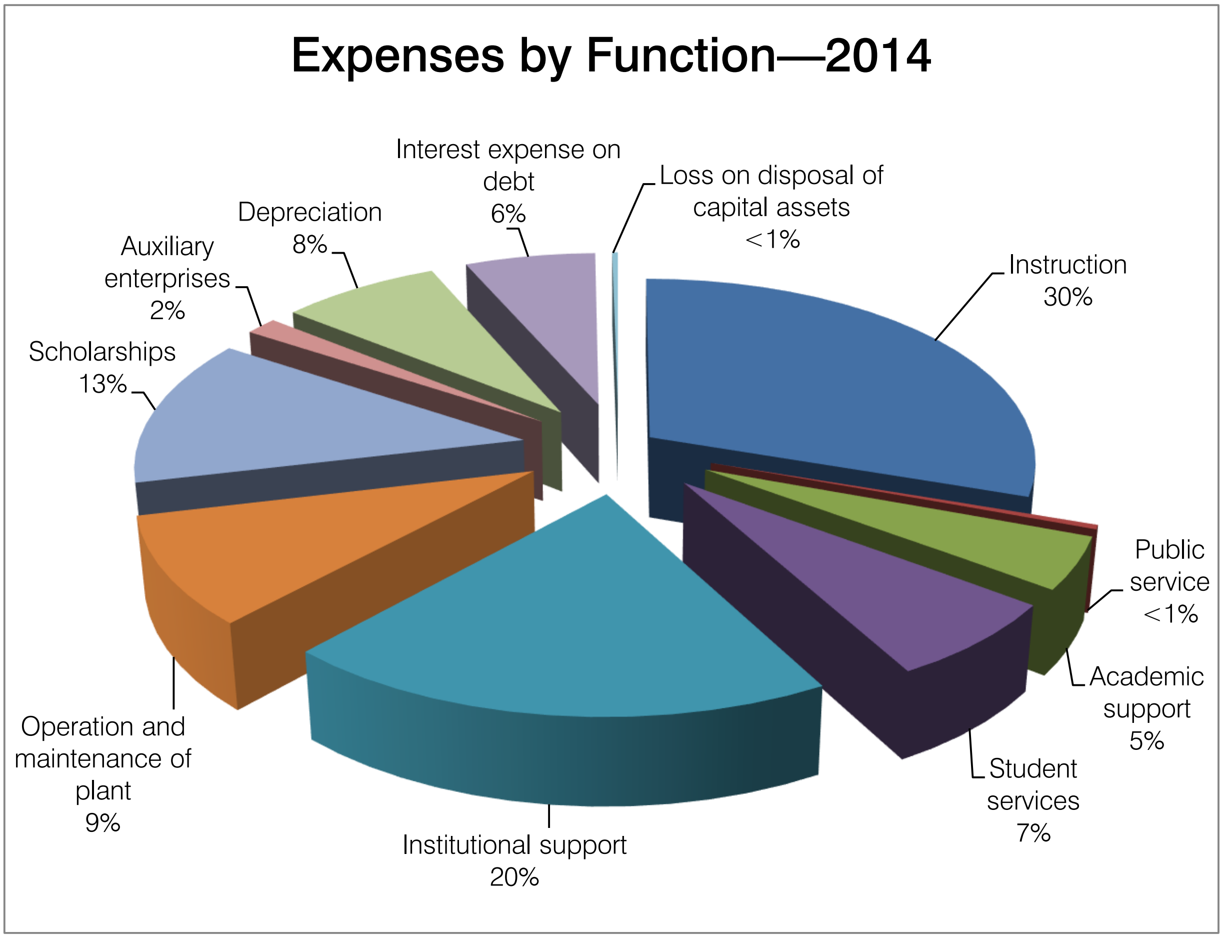
	Year Ended June 30, 2014		Year Ended June 30, 2013	
Operating revenues:				
Tuition and fees (net of scholarship allowances)	$ 5,274,693	7.2%	$ 5,997,913	8.5%
Other operating revenues	930,634	1.3%	1,332,218	1.9%
Total operating revenues	6,205,327	8.5%	7,330,131	10.4%
Nonoperating revenues:				
Property taxes	46,906,012	64.2%	41,792,777	59.0%
State appropriations	2,392,700	3.3%	2,107,800	3.0%
Share of state sales taxes	738,258	1.0%	630,814	0.9%
Government grants and contracts	16,385,572	22.4%	18,162,631	25.7%
Private grants and gifts	334,269	0.5%	434,386	0.6%
Investment income	79,625	0.1%	210,634	0.3%
Gain on disposal of capital assets		0.0%	109,093	0.1%
Total nonoperating revenues	66,836,436	91.5%	63,448,135	89.6%
Total revenues	$73,041,763	100.0%	$70,778,266	100.0%


Revenues by Source—2014
Investment Income
<1%
Tuition and fees (net of scholarship allowances)
7%
Private grants and gifts
<1%
Government grants and contracts
23%
Other operating revenues
1%
Share of state sales taxes
1%
State appropriations
3%
Property taxes
64%

The following is a summary of expenses for fiscal years ended June 30, 2014 and June 30, 2013:

Expenses by Function—Primary Government

	Year Ended June 30, 2014		***Year Ended June 30, 2013***	
Operating expenses:				
Educational and general:				
Instruction	$21,077,842	30.2%	$20,884,600	30.7%
Public service	260,855	0.4%	372,572	0.5%
Academic support	3,181,172	4.6%	2,964,889	4.4%
Student services	4,797,955	6.9%	4,008,712	5.9%
Institutional support	13,851,937	19.8%	13,638,518	20.1%
Operation and maintenance of plant	6,584,000	9.4%	5,659,506	8.3%
Scholarships	9,035,684	12.9%	10,171,074	15.0%
Auxiliary enterprises	1,082,034	1.5%	1,281,191	1.9%
Depreciation	5,358,184	7.7%	4,524,884	6.7%
Total operating expenses	65,229,663	93.4%	63,505,946	93.4%
Nonoperating expenses:				
Interest expense on debt	4,382,623	6.3%	4,507,546	6.6%
Loss on disposal of capital assets	186,722	0.3%		
Total nonoperating expenses	4,569,345	6.6%	4,507,546	6.6%
Total expenses	$69,799,008	100.0%	$68,013,492	100.0%



Capital Assets and Debt Administration

As of June 30, 2014, the District's capital assets, net of accumulated depreciation, totaled $163.8 million, an increase of $1 million from the prior year. Capital assets include land, equipment, buildings, improvements other than buildings, library books, intangibles, and construction in progress. Additional information on capital assets can be found in Note 3 to the District's financial statements.

The District issued $40 million Series A general obligation bonds in fiscal year 2010 as a part of the $99 million capital project initiative approved by the voters in 2008. The District issued the remaining $59 million Series B general obligation bonds in fiscal year 2012. The District used these proceeds to fund the Superstition Mountain Campus expansion, purchase land for the new Maricopa Campus, construct the first phase of the new Maricopa Campus, purchase land for the new San Tan Campus, construct the first phase of the new San Tan Campus, and renovate selected buildings on the Signal Peak and Aravaipa Campuses. Both bond issues have been rated Aa2 by Moody's Investment Services and AA- by Standard and Poor's. Additional information on the District's long-term debt is discussed in Note 4 to the District's financial statements.

Current Factors Having Probable Future Financial Significance

For fiscal year 2014 the primary assessed value for property in the county increased by 8 percent and the secondary assessed value for property increased by 8 percent. Due to a strong recovery in home prices last year, the county projected an additional 6 percent increase in assessed values for fiscal year 2014. The District is continuing to develop budgetary strategies to fund its commitment to expand access to postsecondary education for Pinal County residents.

Requests for Information

This discussion and analysis is designed to provide a general overview of the Pinal County Community College District's finances for all those with an interest in such matters. Written requests for additional financial information should be addressed to the Office of the Vice President of Finance and Administration, Pinal County Community College District, 8470 N. Overfield Rd., Coolidge, AZ 85128.

Pinal County Community College District
(Central Arizona College)
Statement of Net Position—Primary Government
June 30, 2014

	Business-Type Activities
Assets	
Current assets:	
Cash and investments	$ 36,435,786
Receivables:	
Accounts (net of allowance of $345,150)	3,938,715
Property taxes (net of allowance of $58,696)	3,262,731
Government grants and contracts	1,819,322
Student loans (net of allowance of $1,605)	213
Other (net of allowance of $1,441)	19,125
Total current assets	45,475,892
Noncurrent assets:	
Restricted assets:	
Cash and investments held by County Treasurer	520,040
Cash and investments held by trustees	1,939,956
Other receivables (net of allowance of $620)	8,236
Capital assets, not being depreciated	26,013,275
Capital assets, being depreciated, net	137,790,933
Total noncurrent assets	166,272,440
Total assets	211,748,332
Liabilities	
Current liabilities:	
Accounts payable	831,446
Accrued payroll and employee benefits	677,139
Interest payable	271,364
Deposits held in custody for others	421,071
Insurance claims payable	576,248
Current portion of compensated absences payable	1,169,838
Current portion of long-term debt	4,895,002
Total current liabilities	8,842,108

(Continued)

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Net Position—Primary Government
June 30, 2014
(Continued)

	Business-Type Activities
Noncurrent liabilities:	
Compensated absences payable	$ 999,947
Long-term debt	98,696,214
Total noncurrent liabilities	99,696,161
Total liabilities	108,538,269
Net Position	
Net investment in capital assets	60,212,992
Restricted:	
Expendable:	
Grants and contracts	904,975
Loans	64,049
Debt service	4,843,879
Unrestricted	37,184,168
Total net position	$ 103,210,063

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Financial Position—Component Unit
June 30, 2014

	Central Arizona College Foundation
Assets	
Current assets	
Cash and cash equivalents	$ 231,549
Certificate of deposit—current	63,796
Promises to give	50,000
Total current assets	345,345
Noncurrent Assets	
Certificates of deposit	438,382
Investments	4,038,508
Total noncurrent assets	4,476,890
Total assets	4,822,235
Liabilities	
Accounts payable	171,593
Total liabilities	171,593
Net Assets	
Unrestricted	139,310
Temporarily restricted	1,094,566
Permanently restricted	3,416,766
Total net assets	4,650,642
Total liabilities and net assets	$ 4,822,235

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Revenues, Expenses, and Changes in Net Position—Primary Government
Year Ended June 30, 2014

	Business-Type Activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of $6,690,823)	$ 5,274,693
Dormitory rentals and fees (net of scholarship allowances of $340,086)	247,141
Other	683,493
Total operating revenues	6,205,327
Operating expenses:	
Educational and general:	
Instruction	21,077,842
Public service	260,855
Academic support	3,181,172
Student services	4,797,955
Institutional support	13,851,937
Operation and maintenance of plant	6,584,000
Scholarships	9,035,684
Auxiliary enterprises	1,082,034
Depreciation	5,358,184
Total operating expenses	65,229,663
Operating loss	(59,024,336)
Nonoperating revenues (expenses):	
Property taxes	46,906,012
State appropriations	2,392,700
Government grants	16,385,572
Share of state sales taxes	738,258
Private grants and gifts	334,269
Investment earnings	79,625
Interest expense on debt	(4,382,623)
Loss on disposal of capital assets	(186,722)
Net nonoperating revenues	62,267,091
Increase in net position	3,242,755
Total net position, July 1, 2013	99,967,308
Total net position, June 30, 2014	$ 103,210,063

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Activities—Component Unit
Year Ended June 30, 2014

	Central Arizona College Foundation			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues, gains, and other support				
Contributions	$ 22,518	$ 103,639	$ 36,120	$ 162,277
Contributions—donated services and space	84,192			84,192
Investment income		122,621		122,621
Net realized and unrealized gain on investments		592,217		592,217
Net assets released from restrictions	409,293	(409,293)		
Total revenues, gains, and other support	516,003	409,184	36,120	961,307
Expenses and losses				
Scholarships	354,762			354,762
Public relations	1,000			1,000
Office operation expenses	97,322			97,322
Total expenses and losses	453,084			453,084
Changes in net assets	62,919	409,184	36,120	508,223
Net assets, beginning of year	76,391	685,382	3,380,646	4,142,419
Net assets, end of year	$ 139,310	$ 1,094,566	$ 3,416,766	$ 4,650,642

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2014

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	$ 5,431,438
Dormitory rentals and fees	246,210
Collection of loans to students	6,928
Other receipts	364,259
Payments to suppliers and providers of goods and services	(15,089,093)
Payments for employee wages and benefits	(33,999,939)
Payments to students for scholarships	(9,051,598)
Other payments	(838,803)
Net cash used for operating activities	(52,930,598)
Cash flows from noncapital financing activities:	
Property taxes	46,781,210
State appropriations	2,392,700
Grants	18,856,518
Share of state sales taxes	738,258
Noncapital endowments and gifts	334,269
Federal direct lending receipts	5,876,294
Federal direct lending disbursements	(5,876,294)
Deposits held in custody for others received	(143,660)
Deposits held in custody for others disbursed	109,744
Net cash provided by noncapital financing activities	69,069,039
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	8,045
Principal paid on capital debt	(4,642,839)
Interest paid on capital debt	(4,478,262)
Purchases of capital assets	(8,720,926)
Net cash used for capital and related financing activities	(17,833,982)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	2,100,252
Interest received on investments	79,625
Purchases of investments	(2,134,914)
Net cash provided by investing activities	44,963
Net decrease in cash and cash equivalents	(1,650,578)
Cash and cash equivalents, July 1, 2013	38,606,404
Cash and cash equivalents, June 30, 2014	$ 36,955,826

(Continued)

See accompanying notes to financial statements.

Pinal County Community College District
(Central Arizona College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2014
(Continued)

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (59,024,336)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	5,358,184
Changes in assets and liabilities:	
Increase in:	
Accounts payable	16,346
Accrued payroll and employee benefits	330,542
Insurance claims payable	179,189
Compensated absences payable	403,099
Decrease in:	
Receivables, net	165,886
Student loans receivable	492
Deferred revenue	(360,000)
Net cash used for operating activities	$ (52,930,598)
Noncash investing, capital, and noncapital financing activities:	
Disposal of capital assets being depreciated	$ 2,663,178
Elimination of accumulated depreciation on disposal of capital assets	2,468,411
Amortization of bond premium	87,646
Amortization of deferred charges	1,480
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Position:	
Cash and investments	$ 36,435,786
Restricted assets:	
Cash and investments held by County Treasurer	520,040
Total cash and cash equivalents, June 30, 2014	$ 36,955,826

See accompanying notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

Pinal County Community College District's accounting policies conform to generally accepted accounting principles applicable to public institutions engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

The District is a special-purpose government that 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 Central Arizona College Foundation (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 college development activities. 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 $409,293 to the District for restricted purposes. Complete financial statements for the Foundation can be obtained from the Central Arizona College Foundation, 8470 N. Overfield Rd., Coolidge, AZ 85128.

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, deferred inflow 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. 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 dormitory charges, in which each party receives and gives up essentially equal values, are considered to be operating revenues. Other revenues, such as property taxes, state appropriations, and government grants result from transactions in which parties do not exchange equal values and are considered to be nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be 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 operating, noncapital financing, capital and related financing, or investing.

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

Internal transactions and activities, such as transfers between funds, revenues and expenses recorded for internal service activities, and certain internal revenues and expenses recorded for grant activity, have been eliminated for financial statement purposes.

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, and only those highly liquid investments with a maturity of 3 months or less when purchased. All investments are stated at fair value.

D. Capital Assets

Capital assets are reported at actual cost (or estimated historical cost if historical records are not available). Donated assets are reported at 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	All	N/A	N/A
Buildings	$5,000	Straight-line	40 years
Modular buildings	5,000	Straight-line	20 years
Improvements other than buildings	5,000	Straight-line	15 years
Equipment	5,000	Straight-line	5 years
Intangibles			
Water rights	5,000	Straight-line	100 years
Software	5,000	Straight-line	5 years
Library books	All	Straight-line	10 years

Depreciation is accounted for using a half-year convention. Buildings and improvements other than buildings that are classified as construction in progress are not depreciated until completed. Upon completion, these capital assets are reclassified and reported as buildings and improvements other than buildings.

E. Investment Earnings

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

F. Compensated Absences

Compensated absences payable consists of vacation leave and a calculated amount of sick leave employees earned based on services already rendered.

Employees may accumulate up to 320 hours of vacation, but they forfeit any unused vacation hours in excess of the maximum at 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 up to 960 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but employees forfeit them upon terminating employment. However, for employees who have 5 or more years of service, 50 percent of the unused sick leave benefits do vest at employee termination. Sick leave benefits are accrued to the extent it is probable that the District will compensate employees through cash payments upon termination. Those amounts are accrued as a liability in the financial statements.

G. 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 to be scholarship allowances. These allowances are netted against tuition and fees revenues 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. Although not statutorily required, the District has also chosen to deposit other public monies in its custody with the County Treasurer. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District's investments.

Deposits—At June 30, 2014, the carrying amount of the District's deposits was $12,886,755 and the bank balance was $12,293,745. The District does not have a policy with respect to custodial credit risk. At June 30, 2014, $12,043,745 of the District's bank balance was exposed to custodial credit risk as it was uninsured with collateral held by the pledging financial institution.

Investments—The District's investments at June 30, 2014, were as follows:

Investment Type	Amount
County Treasurer's investment pool	$24,047,214
Mutual funds—U.S. Treasury securities	1,939,956
Total	$25,987,170

The District's investment in the County Treasurer's investment pool represents a proportionate interest in that pool's portfolios; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk. The County Treasurer's investment pool is not subject to oversight, and the pool's structure does not provide for shares.

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

Investment Type	Rating	Rating Agency	Amount
County Treasurer's investment pool	Unrated	Not applicable	$24,047,214
Mutual funds—U.S. Treasury securities	Aaa	Moody's	1,939,956
Total			$25,987,170

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. At June 30, 2014, the District had $1,939,956 of Mutual Funds—U.S. Treasury securities that were uninsured, not registered in the District's name, and held by the counterparty's trust department or agent, but not in the District's name.

Interest rate risk—The District does not have a formal policy for interest rate risk. At June 30, 2014, the District had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity
County Treasurer's investment pool	$24,047,214	2.04 months
Mutual funds—U.S. Treasury securities	1,939,956	0.80 months
Total	$25,987,170	

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	$ 21,857	Cash and cash equivalents	$36,435,786
Amount of deposits	12,886,755	Restricted assets:	
Amount of investments	25,987,170	Cash and investments held by County Treasurer	520,040
		Cash and investments held by trustee	1,939,956
Total	$38,895,782	Total	$38,895,782

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	$ 26,013,275			$ 26,013,275
Construction in progress	44,097,762		$44,097,762	
Total capital assets not being depreciated	70,111,037		44,097,762	26,013,275
Capital assets being depreciated:				
Buildings	96,647,063	$41,263,272	628,706	137,281,629
Improvements other than buildings	22,217,817	7,488,005		29,705,822
Water rights	1,171,172			1,171,172
Other intangibles	25,999		25,999	
Equipment	15,149,558	1,689,633	2,008,473	14,830,718
Library books	1,683,083	205,173		1,888,256
Total capital assets being depreciated	136,894,692	50,646,083	2,663,178	184,877,597
Less accumulated depreciation for:				
Buildings	24,899,090	2,620,807	437,135	27,082,762
Improvements other than buildings	5,368,570	1,677,311		7,045,881
Water rights		11,712		11,712
Other intangibles	13,000	12,999	25,999	
Equipment	12,650,299	954,533	2,005,277	11,599,555
Library books	1,265,932	80,822		1,346,754
Total accumulated depreciation	44,196,891	5,358,184	2,468,411	47,086,664
Total capital assets being depreciated, net	92,697,801	45,287,899	194,767	137,790,933
Capital assets, net	$162,808,838	$45,287,899	$44,292,529	$163,804,208

As of June 30, 2014, the District completed the construction projects for the expansion and renovation of the Maricopa and San Tan Campuses.

Note 4 - 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	$ 1,766,686	$1,462,671	$1,059,572	$ 2,169,785	$1,169,838
Bonds payable:					
General obligation bonds	$ 91,340,000		$2,660,000	$ 88,680,000	$2,740,000
Premium	2,015,866		87,646	1,928,220	87,646
Revenue bonds	4,920,000		735,000	4,185,000	765,000
Pledged revenue obligations payable	6,225,000		940,000	5,285,000	980,000
Total bonds payable	104,500,866		4,422,646	100,078,220	4,572,646
Capital leases payable	3,820,835		307,839	3,512,996	322,356
Total long-term debt	$108,321,701		$4,730,485	$103,591,216	$4,895,002

Bonds—The District's bonded debt consists of general obligation bonds and revenue bonds that are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. In fiscal year 2010, the District issued general obligation bonds totaling $40 million to fund the purchase of land, the construction of new facilities, the renovation of existing facilities, and the purchase of equipment. In fiscal year 2012, the District issued the remaining $59 million of voter-approved general obligation bonds to fund the remaining costs associated with these projects. In addition, the District issued revenue bonds in fiscal year 2004, a portion of which were used to advance refund previously issued bonds. The District repays general obligation bonds from voter-approved property taxes. Revenue bonds are repaid from tuition and fees and dormitory rentals and fees. Bonds outstanding at June 30, 2014, were as follows:

Description	Original Amount Issued	Maturity Ranges	Interest Rates	Outstanding Principal
General Obligation Bonds—Series 2012B	$58,975,000	7/1/14-36	2.0-4.5%	$53,525,000
General Obligation Bonds—Series 2009A	40,000,000	7/1/14-34	4.0-5.25%	35,155,000
Revenue Bonds—Series 2004	10,500,000	7/1/14-18	4.125-4.5%	4,185,000

The following schedule details debt service requirements to maturity for the District's bonds payable at June 30, 2014:

	Revenue Bonds		General Obligation Bonds	
	Principal	**Interest**	**Principal**	**Interest**
Year ending June 30				
2015	$ 765,000	$162,425	$ 2,740,000	$ 3,816,018
2016	800,000	127,212	2,810,000	3,739,418
2017	840,000	91,887	2,905,000	3,643,818
2018	870,000	56,619	3,010,000	3,544,918
2019	910,000	19,338	3,115,000	3,442,368
2020-24			17,450,000	15,298,840
2025-29			21,880,000	10,926,790
2030-34			27,750,000	5,303,994
2035-36			7,020,000	424,000
Total	$4,185,000	$457,481	$88,680,000	$50,140,164

Pledged revenue obligations—The District's pledged revenue obligations were issued to provide monies to construct a student services building, shipping and receiving facility, dormitory, and a computer commons facility. The obligations are secured by tuition and fees and dormitory rental and fees of the District and are callable with interest payable semiannually.

The District has pledged, as security for its revenue bonds and pledged revenue obligations, a portion of the District's tuition and fees and dormitory rentals and fees revenue. The District issued the revenue bonds and pledged revenue obligations in 2004 in the amount of $10,500,000 and $13,530,000, respectively. The debt was issued to provide financing for various capital projects and to refinance older higher-rate bonds and pledged revenue obligations of the District. The revenue bonds and pledged revenue obligations are payable through fiscal year 2019. The District has committed to designate each year, from the tuition and fees and dormitory rentals and fees revenue, amounts sufficient to cover the principal and interest requirements on the District's debt. The total principal and interest remaining on the debt is $9,470,000 and $1,004,369, respectively, with annual requirements ranging from $2,090,543 to $2,098,100. Pledged revenue sources have averaged approximately $5,990,000 over the prior 5 fiscal years. For the current year, principal and interest the District paid was $2,100,251, and total tuition and fees and dormitory rentals and fees, net of scholarship allowances, was $5,521,834.

Pledged revenue obligation requirements at June 30, 2014, were as follows:

Description	**Original Amount**	**Maturity Ranges**	**Interest Rates**	**Outstanding Principal**
Pledged Revenue Obligations—Series 2004	$13,530,000	7/1/14-18	3.25%-4.125%	$5,285,000

The following schedule details debt service requirements to maturity for the District's pledged revenue obligations payable at June 30, 2014:

	Pledged Revenue Obligations	
	Principal	Interest
Year Ending June 30		
2015	$ 980,000	$190,675
2016	1,020,000	151,950
2017	1,050,000	111,825
2018	1,095,000	68,925
2019	1,140,000	23,513
Total	$5,285,000	$546,888

Capital leases—The District has acquired energy-savings equipment under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through capital leases are as follows:

Improvements other than buildings	$3,087,228
Equipment	2,249,586
Less: accumulated depreciation	3,587,385
Carrying value	$1,749,429

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2014:

Year ending June 30	
2015	$ 471,703
2016	472,721
2017	473,786
2018	474,900
2019	476,063
2020-23	1,916,894
Total minimum lease payments	4,286,067
Less amount representing interest	773,071
Present value of net minimum lease payments	$3,512,996

Note 5 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with 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; property, automobile, boiler, and machinery liability; and commercial crime risks. The coverage limit for general liability is $10 million with no deductible except for employer's liability, which is $500,000. The coverage limit for professional liability is $10 million with no deductible. The coverage limit for property insurance is $148.8 million with a $1,000 deductible. The coverage limit for automobile liability is $10 million with no deductible. The coverage limit for commercial crime is $1.5 million with a $100 deductible. The Trust's operating agreement includes a provision for the member to be charged an additional assessment in the event that total claims paid by the Trust exceed the members' contributions and reserves in any 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, accidental death and dismemberment for students and employees, employee travel, and extended reporting for errors and omissions. Settled claims resulting from any of these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

Insurance claims—The District finances uninsured risks of loss for certain health benefits to eligible employees and dependents. The healthcare plan provides coverage for claims up to $95,000 for each individual per year, not to exceed an aggregate stop loss of $1 million. The District purchases commercial insurance for claims in excess of these limits. Settled claims have not exceeded the District's coverage for this plan in any of the past 3 fiscal years. An independent administrator provides claim and recordkeeping services for the plan.

The insurance claims payable liability of $576,248 at June 30, 2014, is the estimated ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. This estimate is based on historical data for health insurance claims reported during the year, prior-year claims of continuing duration, and claims incurred but not reported as of June 30, 2014. Changes in the District's claims payable for the years ended June 30, 2014, and June 30, 2013, were as follows:

	2014	**2013**
Claims payable, beginning of year	$ 397,059	$ 538,016
Current year claims and changes in estimates	4,720,682	3,274,396
Claim payments	(4,541,493)	(3,415,353)
Claims payable, end of year	$ 576,248	$ 397,059

Note 6 - Operating Leases

The District leases classroom and office space under provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases were $888,474 for the year ended June 30, 2014. The operating leases have remaining non-cancelable terms of 1 to 7 years and provide renewal options. The future minimum payments required under the operating leases at June 30, 2014, were as follows:

Year ending June 30	
2015	$ 551,662
2016	349,701
2017	363,689
2018	378,237
2019	393,366
2020-21	834,566
Total minimum lease payments	$2,871,221

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 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, 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 (11.30 percent for retirement and 0.24 percent for 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, 0.60 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	$2,156,040	$113,476	$45,277
2013	2,107,487	134,520	46,114
2012	1,968,187	125,629	47,495

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:

Personal services	$34,912,769
Contract services	4,844,413
Supplies and other services	7,439,600
Communications and utilities	2,821,426
Scholarships	9,035,684
Depreciation	5,358,184
Other	817,587
Total	$65,229,663

Note 9 - Subsequent Events

On June 17, 2014, the Governing Board approved the issuance of Revenue Refunding Bonds in an amount not to exceed $8 million. On July 10, 2014, the District issued Revenue Refunding Bonds, Series 2014, in the amount of $7.815 million with an interest rate of 1.46 percent and maturing July 1, 2018. The proceeds from the bonds were used to advance refund the outstanding balance of the series 2004 revenue bonds and pledged revenue obligations at the date of refunding of $3.42 million and $4.305 million, respectively. The remaining proceeds were used for related debt issuance costs.

Note 10 - Central Arizona College Foundation

Nature of Activities—The Central Arizona College Foundation (Foundation) was formed in 1968 as an Arizona not-for-profit corporation. The Foundation's mission and purpose is to support the programs and activities of Central Arizona College (College). The Foundation supports student scholarships, faculty development, and programs that enrich both campus and community life.

The major activities of the Foundation include providing scholarships to college students, sponsorship of community events, and college development activities. Resources to fund these activities are provided mainly from investment income, contributions, and grants.

Basis of Accounting and Financial Statement Presentation—The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets are composed of assets that have been restricted by the donors and contain either time or purpose restrictions plus unspent accumulated investment income on the permanently restricted endowments.

Promises to Give—Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are to be collected within 1 year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contribution support.

Fair Value Measurements and Investments—A framework for measuring fair value has been established by accounting standards and provides a fair-value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under accounting standards are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Foundation's own assumptions that market participants would use in pricing the assets (i.e., real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investment income or loss (including realized and unrealized gains and losses) is included in the change in temporarily restricted net assets in the accompanying statement of activity, unless the income or loss is restricted by donor or law. The Foundation invests most of the endowments in an investment pool which is managed by an investment advisor to the Foundation. This is a commission based account and investment fees are assessed on transaction activity.

Risks and Uncertainty—The Foundation invests in various types of investments which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amount reported in the Statement of Financial Position.

Endowment Funds—The Foundation's endowment funds consist of 39 funds established for a variety of purposes. The endowment funds include donor-restricted endowment funds. Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation follows the Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds. When a donor's intent is not expressed, MCFA directs the Foundation to spend an amount that is prudent and consistent with the purposes of the fund, relevant economic factors, and the donor's intent that the fund continue in perpetuity.

The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MCFA.

In accordance with MCFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the Foundation's other resources, and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. The Foundation's primary objective is to obtain the best possible return on investments with the appropriate degree of risk and to meet the priorities of the Foundation and Central Arizona College over time. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution, while growing the funds if possible. The Foundation has contracted with an asset manager to actively manage the investment portfolio with set objectives.

Spending Policy. The Foundation has adopted a spending policy that governs the overall spending from the endowment funds. The policy allows for spending from each fund to be no more than 7% of the average market value of the funds for the last 28 month period. In establishing this practice, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Foundation expects the current spending practice to allow its endowment funds to grow over time.

Contributions—Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated materials, services and space are recorded at their estimated fair value upon receipt. In-kind donations during the year ended June 30, 2014, include contribution of the Foundation Executive Director salaries and benefits of $56,334, contribution of the Foundation Secretary salary and benefits of $26,058, and facility space donations of $1,800. Contributions of non-monetary items that are converted to cash within a short period of time are recorded as contribution income in the Statement of Activities. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation services.

Scholarship Expense and Scholarships Payable—The College's Financial Aid Office is responsible for determining student eligibility and qualifications under the various scholarship funds and provides the Foundation with a detail of total scholarship funds awarded. Scholarships are expensed for financial statement purposes when the funds are committed by the College's Financial Aid Office.

Functional Expenses—Management and general expenses include direct office operation expenses that are not directly identifiable with any other specific function but provide for overall support and direction of the Foundation.

Income Taxes—The Foundation is exempt from payment of income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation has been classified as a Foundation that is not a private foundation under Section 509(a)(3).

The Foundation recognizes uncertain tax positions in the financial statements when it is more likely than not the positions will not be sustained upon examination by the tax authorities. At June 30, 2014, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Federal and state informational returns of the Foundation are subject to examination by the Internal Revenue Service or the State of Arizona for the years ending June 30, 2011 and 2010, generally for 3 to 4 years, respectively, after they were filed.

The Foundation recognizes interest and penalties associated with income taxes in operating expenses. During the year ended June 30, 2014, the Foundation did not have any income tax related interest and penalty expense.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Date of Management's Review—In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through November 13, 2014, the date the financial statements were available to be issued.

Concentration of Credit Risk—Financial instruments that subject the Foundation to potential concentrations of credit risk consist principally of cash and cash equivalents and investments. The Foundation maintains its cash in bank accounts, which at times may exceed federally insured limits. At June 30, 2014, the bank balances did not exceed the federally insured limits.

The Foundation also maintains cash in accounts with stock brokerage firms. The accounts contain cash and securities. Balances are insured up to $500,000 (with a limit of $250,000 for cash) by the Securities Investor Protection Corporation (SIPC). Balances over $500,000 are insured by the brokerage firms. At June 30, 2014, balances held with the stock brokerage firms exceeded the federally insured limits by $4,417,636, although they were insured by the brokerage firms. The Foundation has not experienced any losses in such amounts and believes it is not exposed to any significant credit risk on its cash balances.

Certificates of Deposit—Certificates of deposit consisted of the following at June 30, 2014:

Maturity Date	Interest Rate	Amount
4/6/2015	2.70%	$ 63,796
Long-term		
3/31/2016	2.75%	64,291
3/31/2017	3.00%	64,197
4/1/2019	3.35%	63,914
4/1/2020	3.55%	63,787
12/21/2021	3.00%	63,000
4/5/2022	2.80%	57,386
4/4/2023	3.05%	61,807
Total long-term		$438,382

Investments—The following is a summary of the value of investments at June 30, 2014:

Unit trusts	$ 83,615
Stocks	1,767,160
Mutual funds	2,187,733
	$4,038,508

The following schedule summarizes the investment return for the year ended June 30, 2014:

Interest and dividend income	$122,621
Net realized gains	258,017
Net unrealized gains	334,200
	$714,838

Investment return is reported net of related investment expenses in the Statement of Activities. The amount of expense/commissions netted with income was $29,919 for the year ended June 30, 2014.

Fair Value of Financial Instruments—Investments with readily determinable fair values are measured at fair value in the Statement of Financial Position as determined by quoted market prices in active markets (Level 1) or measured based on prices for identical assets in nonactive markets (Level 2).

The following is a summary of these fair values at June 30, 2014:

	Level 1	Level 2	Total
Measured at fair value on a recurring basis			
Unit trusts	$ 83,615		$ 83,615
Stocks	1,767,160		1,767,160
Mutual funds	2,187,733		2,187,733
Total investments	$4,038,508	$	$4,038,508

Restricted Net Assets—Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support services and programs to Central Arizona College and the students of Central Arizona College as designated by the donors. At June 30, 2014, the Foundation held 39 permanently restricted net asset funds. Temporarily restricted net assets are expendable for the purposes designated by their source. At June 30, 2014, the Foundation held 41 temporarily restricted net asset funds.

The nature of these restrictions are as follows:

Permanently restricted net assets	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by MCFA	$3,416,766
Temporarily restricted net assets	
The investment income on perpetual endowment funds subject to a time restriction under MCFA	532,509
Promises to give	50,000
Other net assets temporarily purpose restricted:	
Scholarships (non-endowed)	477,360
	$1,059,869

Endowment Funds—Endowment funds include funds restricted in perpetuity by the donors. Endowment net asset composition by type of fund as of June 30, 2014, is as follows:

	Temporarily Restricted	**Permanently Restricted**	**Total Endowment Funds**
Permanently restricted funds	$532,509	$3,416,766	$3,949,275

Changes in endowment funds are as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment Funds
Balance, June 30, 2013	$ 118,054	$3,380,646	$3,498,700
Contributions		36,120	36,120
Interest and dividend income	108,765		108,765
Realized and unrealized gains	484,676		484,676
Amounts appropriated for expenditures	(178,986)		(178,986)
Balance, June 30, 2014	$ 532,509	$3,416,766	$3,949,275

Concentrations—Concentrations include contribution income. Each year, the Foundation typically receives contributions from donors that are considered significant in relation to total contribution income. These contributions are generally restricted for a specific purpose and are not used for operations. During the year ended June 30, 2014, significant contributions include amounts from one donor whose contributions netted to approximately 25 percent of total support.

Related Party Transactions—The staff members of the Foundation are employees of Central Arizona College. The Foundation reimburses the College for the payroll expense of the Foundation's Executive Director (hired January 31, 2014) and the Foundation Secretary. The balance of accounts payable at June 30, 2014, is made up of amounts due to the College for these expenses. Other College employees assist the Foundation and the Foundation is not charged for their services. No amounts have been recorded for these nonreimbursed payroll costs as the services are deemed to be solely for carrying out the operations of the College activities. In addition, the president of the College is a voting member of the Foundation's Board of Directors. Other college employees, by virtue of their position, provide advisory services within the Foundation. As a result, Central Arizona College has significant input regarding the operations and goals of the Foundation. The current Foundation investment advisor is also a voting member of the Foundation board.

Supplementary Information

Pinal County Community College District
(Central Arizona 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
Department of Labor					
17 259	WIA Youth Activities	WIA Cluster	Gila County	Gila 10101	$ 684,724
17 267	Incentive Grants—WIA Section 503		Arizona Department of Education	14FAECCR-470612-05A	10,942
17 269	Community Based Job Training Grants				326,619
	Total Department of Labor				1,022,285
National Science Foundation					
47 050	Geosciences		Arizona State University	1108044	3,948
47 076	Education and Human Resources				13,441
47 076	Education and Human Resources		University of New Mexico	DUE-1003736	207
	Total 47.076				13,648
	Total National Science Foundation				17,596
Small Business Administration					
59 037	Small Business Development Centers		Maricopa County Community College District	3-603001-Z-0003C 4-603001-EZ-0025	49,672
Department of Education					
84 002	Adult Education—Basic Grants to States		Arizona Department of Education	14FAEABE-470612-02A 14FAEAEF-470612-04A	125,254
84 007	Federal Supplemental Educational Opportunity Grants	Student Financial Assistance Cluster			129,846
84 033	Federal Work-Study Program	Student Financial Assistance Cluster			148,556
84 063	Federal Pell Grant Program	Student Financial Assistance Cluster			12,566,830
84 268	Federal Direct Student Loans	Student Financial Assistance Cluster			5,894,521
	Total Student Financial Assistance Cluster				18,739,753
84 031	Higher Education—Institutional Aid				1,018,023
84 042	TRIO—Student Support Services	TRIO Cluster			226,817
84 048	Career and Technical Education—Basic Grants to States		Arizona Department of Education	14FCTDBG-470612-01A 13FCTDBG-370612-01A	166,127
	Total Department of Education				20,275,974
	Total expenditures of federal awards				$ 21,365,527

See accompanying notes to schedule.

Pinal County Community College District
(Central Arizona 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 Pinal County 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.*

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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 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
Pinal County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Pinal County 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 January 30, 2015. Our report includes a reference to other auditors who audited the financial statements of the Central Arizona College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. However, the financial statements of the Central Arizona College Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance associated with the Central Arizona College Foundation.

Internal Control over Financial Reporting

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

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

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

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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*.

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

January 30, 2015

STATE OF ARIZONA

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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
Pinal County Community College District

Report on Compliance for Each Major Federal Program

We have audited Pinal County 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.

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Opinion on Each Major Federal Program

In our opinion, Pinal County Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on 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 this 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

January 30, 2015

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Summary of Auditors' Results

Financial Statements

	Yes	No
Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	___	X
Significant deficiencies identified?	___	X (None reported)
Noncompliance material to the financial statements noted?	___	X

Federal Awards

	Yes	No
Internal control over major programs:		
Material weaknesses identified?	___	X
Significant deficiencies identified?	___	X (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])?	___	X

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
17.269	Community Based Job Training Grants
	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
84.031	Higher Education—Institutional Aid
84.048	Career and Technical Education—Basic Grants to States

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

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

	Yes	No
Auditee qualified as low-risk auditee?	___	X

Other Matters

	Yes	No
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	X	___

Pinal County Community College District
(Central Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Financial Statement Findings

None reported

Federal Award Findings and Questioned Costs

None reported

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Central Arizona College

November 12, 2014

Debbie Davenport
Auditor General
2910 North 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

We have prepared the accompanying Summary Schedule of Prior Audit Findings as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards.

Sincerely,

Chris Wodka
Vice President of Business Affairs

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Pinal County Community College District
(Central Arizona College)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

Status of Federal Award Findings and Questioned Costs

CFDA No.: 84.031 Higher Education - Institutional Aid
Finding No.: 2013-101
Status: Fully corrected