



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, 2012



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, 2012

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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

We have audited the accompanying 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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon 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 of 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of the District's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

December 20, 2012

Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2012

This discussion and analysis introduces the basic financial statements and provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the 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 Assets reflects the financial position of the District at June 30, 2012. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represents institutional equity or ownership in the total assets of the District. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and other changes for the year ended June 30, 2012. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net assets amount, which is shown on the Statement of Net Assets described above.

The Statement of Cash Flows presents the inflows and outflows of cash and cash equivalents for the year ended June 30, 2012. 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 Assets 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 Assets described above.

The primary focus of this document is on the results of activity for the fiscal year ended June 30, 2012. 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.

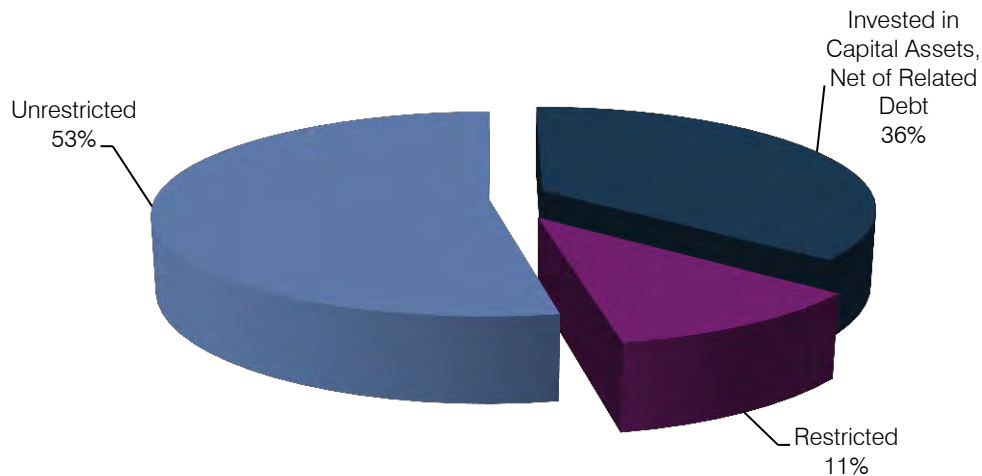
Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Management's Discussion and Analysis
 Year Ended June 30, 2012

Condensed Financial Information

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

	2012	2011
Assets:		
Current assets	\$ 42,963,415	\$ 49,354,056
Noncurrent assets, other than capital assets	684,653	649,785
Capital assets, net	<u>88,137,847</u>	<u>91,255,442</u>
Total assets	<u>131,785,915</u>	<u>141,259,283</u>
Liabilities:		
Other liabilities	4,567,458	14,803,111
Long-term liabilities	<u>68,568,818</u>	<u>68,558,409</u>
Total liabilities	<u>73,136,276</u>	<u>83,361,520</u>
Net Assets		
Invested in capital assets, net of related debt	20,927,460	24,024,329
Restricted net assets	6,753,461	7,603,084
Unrestricted net assets	<u>30,968,718</u>	<u>26,270,350</u>
Total net assets	<u>\$ 58,649,639</u>	<u>\$ 57,897,763</u>

Percent of Net Assets for 2012

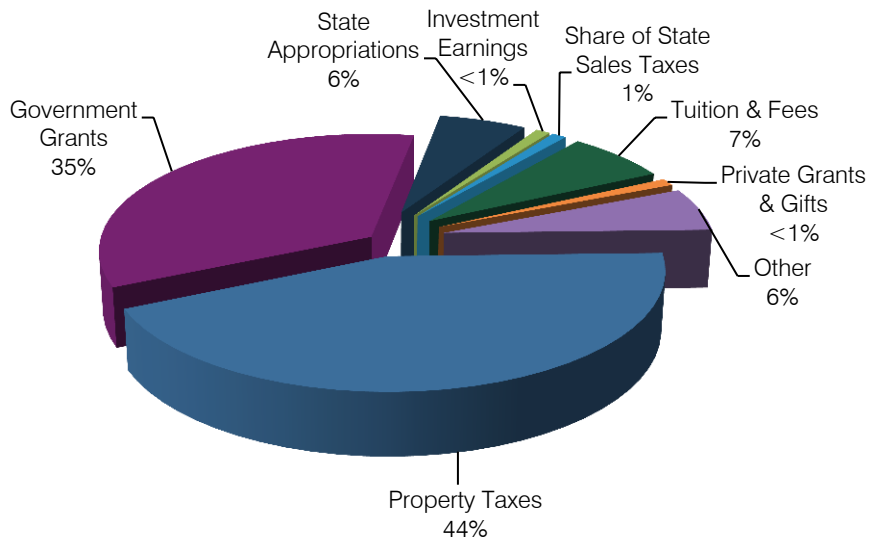


Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Management's Discussion and Analysis
 Year Ended June 30, 2012

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

	2012	2011
Revenues		
Operating		
Tuition and fees, net	\$ 4,541,672	\$ 3,985,552
Other, net	3,503,963	3,246,240
Nonoperating		
Property taxes	28,904,299	27,654,813
State appropriations	4,089,600	7,751,200
Government grants	23,228,208	24,715,650
Share of state sales taxes	696,089	624,303
Private grants and gifts	615,545	557,654
Investment earnings	<u>177,700</u>	<u>190,033</u>
Total revenues	<u>65,757,076</u>	<u>68,725,445</u>
Expenses		
Operating	61,950,541	62,717,652
Nonoperating	<u>3,059,586</u>	<u>3,150,200</u>
Total expenses	<u>65,010,127</u>	<u>65,867,852</u>
Capital grants and gifts	4,927	6,225
Increase in net assets	751,876	2,863,818
Net assets, July 1	<u>57,897,763</u>	<u>55,033,945</u>
Net assets, June 30	<u>\$58,649,639</u>	<u>\$57,897,763</u>

Percent of 2012 Revenues by Source

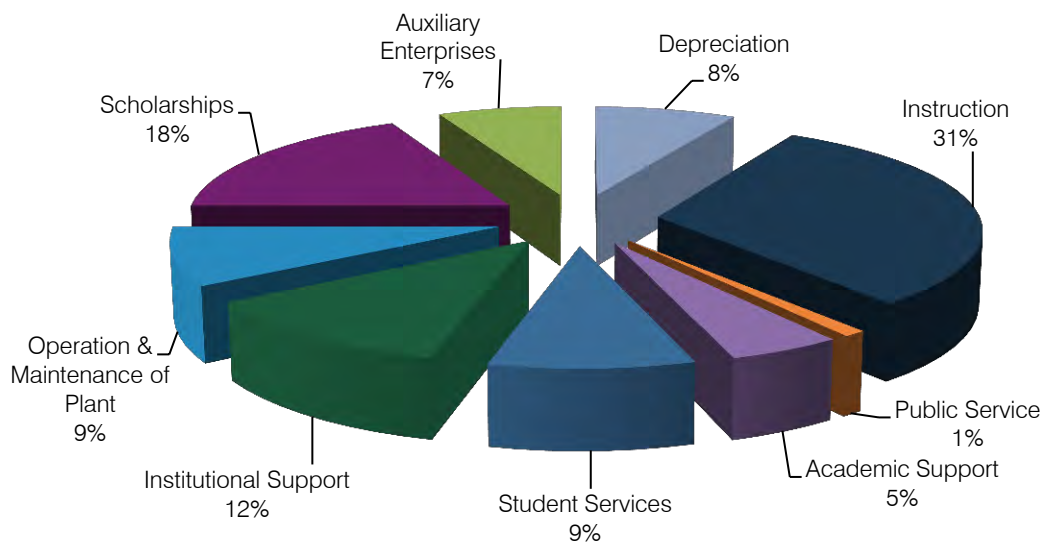


Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Management's Discussion and Analysis
 Year Ended June 30, 2012

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

	2012	2011
Operating expenses		
Educational and general:		
Instruction	\$19,357,471	\$19,381,941
Public service	882,800	881,241
Academic support	3,089,257	3,323,612
Student services	5,428,957	5,371,512
Institutional support	7,187,935	6,606,935
Operation & maintenance of plant	5,686,884	4,979,727
Scholarships	11,515,307	13,254,099
Auxiliary enterprises	4,084,846	4,278,948
Depreciation	<u>4,717,084</u>	<u>4,639,637</u>
Total operating expenses	<u>61,950,541</u>	<u>62,717,652</u>
Nonoperating expenses		
Interest expense on debt	3,057,250	3,150,200
Other nonoperating expenses	<u>2,336</u>	<u> </u>
Total nonoperating expenses	<u>3,059,586</u>	<u>3,150,200</u>
Total expenses	<u>\$65,010,127</u>	<u>\$65,867,852</u>

Percent of 2012 Operating Expenses by Category



Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2012

Financial Highlights and Analysis

Financial Position

The District's overall financial position improved in fiscal year 2012. Total assets decreased \$9.5 million from fiscal year 2011 to fiscal year 2012. This decrease is primarily due to the Yuma Area Benefit Consortium (YABC) being moved to the City of Yuma on January 1, 2012, as the City has assumed the role of fiscal agent for the YABC.

Total liabilities decreased by \$10.2 million, which is mostly due to the elimination of YABC as a deposit held in custody for others.

Total net assets for the District increased by \$800,000 from fiscal year 2011 to fiscal year 2012. This increase is primarily attributable to an increase of \$4.7 million in unrestricted net assets due to an increase in cash and investments exclusive of YABC funds, a decrease of \$3.1 million in invested in capital assets, net of related debt due to disposal of equipment, and a decrease of \$800,000 in restricted net assets based on few capital projects being completed.

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 2012 the District's total revenues decreased by \$3 million from fiscal year 2011. The following revenue sources make up a significant portion of this total decrease.

- Tuition and fees increased by \$600,000 primarily due to the tuition rate increase.
- Other operating revenues increased \$300,000 primarily due to increased food services revenues and noncash donations received from the U.S. Department of Defense.
- Government grants decreased by \$1.5 million due to the timing of grants funding, which is primarily reimbursement based.
- Property taxes increased \$1.2 million primarily due to new construction.
- State appropriations decreased by \$3.6 million due to a change in the funding formula for base and equalization aid.
- Private gifts and grants, investment earnings, and the share of state sales taxes increased by \$100,000.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2012

Total operating expenses decreased by \$800,000 from fiscal year 2011 to fiscal year 2012. This reflects a \$1.7 million decrease in scholarships, a \$300,000 decrease in instruction and academic support, and a \$200,000 decrease in auxiliary enterprises due to enrollment decline; a \$600,000 increase in institutional support due to increased fringe benefit costs; a \$100,000 increase in depreciation costs; and a \$700,000 increase in operation and maintenance of plant due to increased utility costs resulting from a solar renewable energy agreement with Arizona Public Service Company (APS). A credit from APS will be realized in 2013. These expenses are reflected in the District's function/program expenses.

Nonoperating expenses in fiscal year 2012 for interest expense on debt decreased slightly due to scheduled retirements of long-term debt.

Capital Assets and Debt Administration

The District's capital assets, net of accumulated depreciation, totaled over \$88 million as of June 30, 2012. Capital assets include land, buildings, and 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, 2012, the District had two general obligation bond issues totaling approximately \$67 million. 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

Proposition 301 was passed by the voters in 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 2012 was the 11th year of this funding, and the District received over \$700,000. It is anticipated that the District will continue to receive at least this amount for the next 9 years.

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 Assets—Primary Government
 June 30, 2012

	<u>Business-Type Activities</u>
Assets	
Current assets:	
Cash and investments	\$ 39,255,419
Receivables (net of allowances for uncollectibles):	
Property taxes	1,469,546
Government grants and contracts	1,049,003
Interest	76,995
Other	1,006,922
Prepaid items	84,809
Deferred financing costs	20,721
Total current assets	<u>42,963,415</u>
Noncurrent assets:	
Restricted assets:	
Property taxes receivable (net of allowances for uncollectibles)	316,743
Student loans receivable (net of allowances for uncollectibles)	3,350
Deferred charges	364,560
Capital assets, not being depreciated	893,481
Capital assets, being depreciated, net	<u>87,244,366</u>
Total noncurrent assets	<u>88,822,500</u>
Total assets	<u>131,785,915</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 891,228
Accrued payroll and employee benefits	1,253,441
Interest payable	1,528,628
Deferred revenues	335,125
Deposits held in custody for others	559,036
Current portion of compensated absences payable	101,882
Current portion of long-term debt	<u>2,085,727</u>
Total current liabilities	<u>6,755,067</u>
Noncurrent liabilities:	
Compensated absences payable	1,256,549
Long-term debt	<u>65,124,660</u>
Total noncurrent liabilities	<u>66,381,209</u>
Total liabilities	<u>73,136,276</u>

(Continued)

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Net Assets—Primary Government
 June 30, 2012
 (Continued)

	<u>Business-Type Activities</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 20,927,460
Restricted:	
Nonexpendable:	
Student loans	175,699
Expendable:	
Grants and contracts	700,682
Debt service	2,105,520
Capital projects	3,771,560
Unrestricted	<u>30,968,718</u>
 Total net assets	 <u><u>\$ 58,649,639</u></u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Financial Position—Component Unit
 June 30, 2012

	<u>Arizona Western College Foundation</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 1,696,490
Accounts receivable	2,585
Contributions receivable	91,740
Current portion of note receivable	<u>8,181</u>
Total current assets	<u>1,798,996</u>
Investments	1,980,993
Property and equipment, net	841,224
Note receivable, less current portion	<u>41,977</u>
Total assets	<u>\$ 4,663,190</u>
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$ 2,598
Accrued payroll and related liabilities	5,139
Rental deposits	<u>9,101</u>
Total current liabilities	<u>16,838</u>
Compensated absences payable	<u>7,425</u>
Total liabilities	<u>24,263</u>
Net Assets	
Unrestricted	
Undesignated	2,244,911
Designated	64,733
Temporarily restricted	711,780
Permanently restricted	<u>1,617,503</u>
Total net assets	<u>4,638,927</u>
Total liabilities and net assets	<u>\$ 4,663,190</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 Assets—Primary Government
 Year Ended June 30, 2012

	<u>Business-Type Activities</u>
Operating revenues:	
Tuition and fees (net of scholarship allowances of \$8,997,243)	\$ 4,541,672
Food service income (net of scholarship allowances of \$386,775)	1,708,468
Dormitory rentals and fees (net of scholarship allowances of \$244,941)	458,733
Bookstore income	360,694
Other	<u>976,068</u>
Total operating revenues	<u>8,045,635</u>
Operating expenses:	
Educational and general:	
Instruction	19,357,471
Public service	882,800
Academic support	3,089,257
Student services	5,428,957
Institutional support	7,187,935
Operation and maintenance of plant	5,686,884
Scholarships	11,515,307
Auxiliary enterprises	4,084,846
Depreciation	<u>4,717,084</u>
Total operating expenses	<u>61,950,541</u>
Operating loss	<u>(53,904,906)</u>
Nonoperating revenues (expenses):	
Property taxes	28,904,299
State appropriations	4,089,600
Government grants	23,228,208
Share of state sales taxes	696,089
Private grants and gifts	615,545
Investment earnings	177,700
Interest expense on debt	(3,057,250)
Other nonoperating expenses	(1,189)
Loss on disposal of capital assets	<u>(1,147)</u>
Total nonoperating revenues (expenses)	<u>54,651,855</u>
Income before other revenues, expenses, gains, or losses	746,949
Capital grants and gifts	4,927
Increase in net assets	751,876
Total net assets, July 1, 2011	<u>57,897,763</u>
Total net assets, June 30, 2012	<u><u>\$ 58,649,639</u></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, 2012

	Arizona Western College Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Donations	\$ 1,204,265	\$ 101,216	\$ 316,123	\$ 1,621,604
Arizona Western College support	195,077			195,077
Rental income	170,270			170,270
Investment income, net of expenses of \$14,774	6,898	22,379		29,277
Unrealized losses	(585)	(740)		(1,325)
Realized gains (losses)	(14,599)	(47,774)		(62,373)
Net assets released from restrictions	<u>103,552</u>	<u>(103,552)</u>		
Total revenues and support	<u>1,664,878</u>	<u>(28,471)</u>	<u>316,123</u>	<u>1,952,530</u>
Expenses				
Program services:				
Arizona Western College contributed salaries	156,105			156,105
Scholarships	92,343			92,343
Rental operations	140,798			140,798
Supporting services:				
Management and general	112,456			112,456
Fundraising	<u>8,935</u>			<u>8,935</u>
Total expenses	<u>510,637</u>			<u>510,637</u>
Changes in net assets	1,154,241	(28,471)	316,123	1,441,893
Net assets at beginning of year, as previously reported	<u>1,155,403</u>	<u>750,251</u>	<u>1,291,380</u>	<u>3,197,034</u>
Correction of net asset classifications		<u>(10,000)</u>	<u>10,000</u>	
Net assets, as restated	<u>1,155,403</u>	<u>740,252</u>	<u>1,301,380</u>	<u>3,197,035</u>
Net assets, end of year	<u><u>\$ 2,309,644</u></u>	<u><u>\$ 711,780</u></u>	<u><u>\$ 1,617,503</u></u>	<u><u>\$ 4,638,927</u></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, 2012

	<u>Business-Type Activities</u>
Cash flows from operating activities:	
Tuition and fees	\$ 3,946,763
Bookstore receipts	370,129
Food services receipts	1,708,468
Dormitory rentals and fees	458,733
Collection of loans to students	828
Other receipts	1,267,699
Payments to suppliers and providers of goods and services	(11,931,742)
Payments for employee wages and benefits	(33,620,862)
Payments to students for scholarships	(11,515,307)
Net cash used for operating activities	<u>(49,315,291)</u>
Cash flows from noncapital financing activities:	
Property taxes	28,721,725
State appropriations	4,089,600
Government grants	23,674,773
Share of state sales taxes	696,089
Private grants and gifts	615,545
Other nonoperating expenses	(1,189)
Federal direct lending receipts	2,329,284
Federal direct lending disbursements	(2,329,284)
Deposits held in custody for others received	13,920,435
Deposits held in custody for others disbursed	(25,773,942)
Net cash provided by noncapital financing activities	<u>45,943,036</u>
Cash flows from capital and related financing activities:	
Capital grants and gifts	4,927
Interest paid on capital debt	(1,528,622)
Purchases of capital assets	(1,600,635)
Net cash used for capital and related financing activities	<u>(3,124,330)</u>
Cash flows from investing activities:	
Interest received on investments	<u>100,705</u>
Net cash provided by investing activities	<u>100,705</u>
Net decrease in cash and cash equivalents	(6,395,880)
Cash and cash equivalents, July 1, 2011	<u>45,651,299</u>
Cash and cash equivalents, June 30, 2012	<u>\$ 39,255,419</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, 2012
 (Continued)

	<u>Business-Type Activities</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (53,904,906)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	4,717,084
Changes in assets and liabilities:	
Increase in:	
Other receivables	(248,197)
Accounts payable	153,187
Compensated absences payable	31,136
Decrease in:	
Prepaid items	1,205
Student loans receivable, net	828
Accrued payroll and employee benefits	(19,982)
Deferred revenues	(45,646)
Net cash used for operating activities	<u>\$ (49,315,291)</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2012

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).

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 (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, 2012, the Foundation distributed \$92,343 to the District for both restricted and unrestricted purposes. Also, during the year, the District entered into an agreement with the Foundation to set up an irrevocable endowment, referred to as the Dreams to Reality Title V Endowment, as part of the District's Higher Education—Institutional Aid program's authority under Title V of the Higher Education Act of 1965 and the U.S. Department of Education. Under the agreement, the Foundation will provide the District endowment funding of \$383,866 over the next 5 years to match federal funding for the endowment. Annual income of the endowment is to be used for ongoing faculty development and scholarships for the District. The Foundation will establish the endowment's corpus and initial contribution in the

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amount of \$91,040. At June 30, 2012, the Foundation designated \$64,733 to meet matching requirements on an irrevocable endowment 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. In addition, the District provided \$195,077 of support to the Foundation during the fiscal year. Complete financial statements for the Foundation can be obtained from the Foundation Office, P.O. Box 929, Yuma, AZ 85364-0929.

B. Basis of Presentation and Accounting

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

A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy the District's obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net assets 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 assets represents grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets includes all other net assets, 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 assets 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 assets 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, are considered to be operating revenues. Other revenues, such as property taxes, state appropriations, and government grants, are not generated from exchange transactions 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 either operating, noncapital financing, capital financing, or investing.

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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 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 imposed by the provider 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.

The District follows FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The District has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

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.

Nonparticipating interest-earning investment contracts are stated at cost. 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 amortized 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:

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	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. 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 earned by employees based on services already rendered.

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

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees. Therefore, a liability for sick leave benefits is not accrued 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 is paid by the student or third parties making payments on the student's behalf. Accordingly, some types of student financial aid, such as Pell grants and scholarships awarded by the District, 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 assets.

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,

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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.

Deposits—At June 30, 2012, the total cash on hand was \$7,450, the carrying amount of the District's deposits was \$7,685,250, and the bank balance was \$8,273,331. The District does not have a formal policy with respect to custodial credit risk for deposits.

Investments—At June 30, 2012, the District's investments consisted of the following:

Investment Type	Amount
State Treasurer's investment pool 7	\$ 1,737
County Treasurer's investment pool	18,491,889
U.S. Treasury securities	254,083
U.S. agency securities	<u>12,815,010</u>
Total	<u>\$31,562,719</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, 2012, 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	\$ 1,737
County Treasurer's investment pool	Unrated	Not applicable	18,491,889
U.S. agency securities	AAA/Aa+	Moody's/Standard & Poor's	<u>12,815,010</u>
Total			<u>\$31,308,636</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, 2012, of 5 percent or more in Federal National Mortgage Association, Federal Home Loan Mortgage, Federal Home Loan Bank, and Federal Farm Credit Bank. These investments were 15.3 percent, 11.7 percent, 8.2 percent, and 5.3 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 less than 3 years. At June 30, 2012, 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	\$ 1,737	\$ 1,737	
County Treasurer’s investment pool	18,491,889	18,491,889	
U.S. Treasury securities	254,083		\$ 254,083
U.S. agencies securities	<u>12,815,010</u>	<u>6,744,312</u>	<u>6,070,698</u>
Total	<u>\$31,562,719</u>	<u>\$25,237,938</u>	<u>\$6,324,781</u>

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

Cash, deposits, and investments:		Statement of Net Assets:	
Cash on hand	\$ 7,450	Cash and investments	\$39,255,419
Amount of deposits	7,685,250		
Amount of investments	<u>31,562,719</u>		
Total	<u>\$39,255,419</u>	Total	<u>\$39,255,419</u>

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 543,607			\$ 543,607
Construction in progress	<u>141,726</u>	<u>\$ 264,623</u>	<u>\$ 56,475</u>	<u>349,874</u>
Total capital assets not being depreciated	<u>685,333</u>	<u>264,623</u>	<u>56,475</u>	<u>893,481</u>
Capital assets being depreciated:				
Buildings	103,065,425	235,889		103,301,314
Equipment	14,282,836	1,046,651	3,357,119	11,972,368
Improvements other than buildings	20,928,743	10,980		20,939,723
Library books	<u>1,609,382</u>	<u>98,968</u>	<u>53,132</u>	<u>1,655,218</u>
Total capital assets being depreciated	<u>139,886,386</u>	<u>1,392,488</u>	<u>3,410,251</u>	<u>137,868,623</u>
Less accumulated depreciation for:				
Buildings	25,978,071	2,387,808		28,365,879
Equipment	10,883,087	1,331,418	3,355,972	8,858,533
Improvements other than buildings	11,263,753	917,132		12,180,885
Library books	<u>1,191,366</u>	<u>80,726</u>	<u>53,132</u>	<u>1,218,960</u>
Total accumulated depreciation	<u>49,316,277</u>	<u>4,717,084</u>	<u>3,409,104</u>	<u>50,624,257</u>
Total capital assets being depreciated, net	<u>90,570,109</u>	<u>(3,324,596)</u>	<u>1,147</u>	<u>87,244,366</u>
Capital assets, net	<u>\$ 91,255,442</u>	<u>\$(3,059,973)</u>	<u>\$ 57,622</u>	<u>\$ 88,137,847</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, 2012, for the construction of the Wellton Learning Center and the renovation of three buildings on the main campus, Garces Dormitory, Student Services Building, and Technology 3 Building. At June 30, 2012, the District had spent \$349,874 on these projects and had remaining contractual commitments with contractors of \$3,307,370. The Wellton Learning Center is being financed by the remaining unspent proceeds from the District's series 2006 general obligation bonds; the renovations to the Student Services and the Technology 3 buildings are being financed by federal monies awarded through U.S. Department of Education, and the Garces Dormitory renovation is being financed by Unexpended Plant Fund resources.

Note 5 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within 1 year
Compensated absences payable	<u>\$ 1,327,295</u>	<u>\$1,143,217</u>	<u>\$1,112,081</u>	<u>\$ 1,358,431</u>	<u>\$ 101,882</u>
Bonds payable:					
General obligation bonds	\$66,825,000			\$66,825,000	\$2,065,000
Premiums	<u>406,114</u>		<u>\$ 20,727</u>	<u>385,387</u>	<u>20,727</u>
Total long-term debt	<u>\$67,231,114</u>	<u>\$</u>	<u>\$ 20,727</u>	<u>\$67,210,387</u>	<u>\$2,085,727</u>

General Obligation Bonds Payable—The District's bonded debt consists of general obligation bonds that are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. 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, 2012, were as follows:

Description	Original Amount Issued	Maturity Ranges	Interest Rates	Outstanding Principal
General obligation bonds—series 2005	\$20,000,000	7/1/2012-30	3.625–5%	\$16,965,000
General obligation bonds—series 2006	53,850,000	7/1/2012-31	3.75–5%	<u>49,860,000</u>
				<u>\$66,825,000</u>

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

Year Ending June 30,	Principal	Interest
2013	\$ 2,065,000	\$ 3,009,447
2014	2,170,000	2,911,409
2015	2,270,000	2,808,244
2016	2,390,000	2,695,556
2017	2,510,000	2,573,056
2018-22	14,545,000	10,839,470
2023-27	18,575,000	6,888,975
2028-32	<u>22,300,000</u>	<u>2,207,485</u>
Total	<u>\$66,825,000</u>	<u>\$33,933,642</u>

Note 6 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District 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, boiler, and machinery liability; and commercial crime risks. 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 member's 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 all such risks of loss, including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years. The coverage limits and deductibles are listed below:

Coverage	Limit	Deductible
General	\$10,000,000/occurrence	None
	Employers 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	\$101,548,031	\$1,000/occurrence
Automobile	\$10,000,000/occurrence	None
	\$15,000 each person/\$250,000 each accident underinsured motorist	
Commercial crime	\$1,500,000/occurrence	None
Commercial employers	\$500,000	None
Workers compensation	Medical expenses and lost wages	None

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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 four 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, releases the District from all further legal obligations of any type. No additional contributions to the Consortium have been made in any of the past 3 fiscal years.

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 plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. 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. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board 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 may be obtained 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, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement and 0.24 percent for long-term disability) of the members'

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annual covered payroll and the District was required by statute to contribute at the actuarially determined rate of 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, 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
2012	\$2,045,336	\$130,553	\$50,631
2011	1,867,996	122,322	51,817
2010	1,659,676	131,341	79,665

Note 8 - Operating Expenses

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

Personal services	\$33,632,016
Contract services	4,080,485
Supplies and other services	2,243,745
Communications and utilities	2,695,758
Scholarships	11,515,307
Depreciation	4,717,084
Other	<u>3,066,146</u>
Total	<u>\$61,950,541</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 (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, AZ. The Foundation provides services to residents of Yuma and La Paz Counties.

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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 U.S. generally accepted accounting principles. 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 Dream to Reality Program. These assets are held in investments in an endowment fund.

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.

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 3 months or less to be cash equivalents. Cash and cash equivalents held for long-term investment purposes are included as investments.

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Investments—Investments 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.

Contributions Receivable—Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using a discount rate applicable in the year in which the pledge is received. Amortization of the discount is included in contribution revenue. Conditional pledges are not included as support until such time as the conditions are substantially met.

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 and furniture and equipment are not capitalized.

Tax-Exempt Status—The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Therefore, no expense has been recognized for income taxes in the accompanying financial statements. The Foundation is not a private foundation and contributions to the Foundation qualify as charitable deductions by the contributor. As of June 30, 2012, no uncertain tax positions have been identified, and accordingly, no provision has been made. As of June 30, 2012, tax years 2009 through 2011 remain subject to examination by major tax jurisdictions.

Fair Value Measurements

Generally accepted accounting principles 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 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 investments use quoted prices in active markets for identical assets that the Foundation has the ability to access. Such investments consist of holdings in equity securities, mutual funds and bonds that are actively traded on an exchange.

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Level 2 investments use inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly. The Foundation has no such investments.

Level 3 investments have no observable values for the assets and rely on management's own assumptions that market participants would use in pricing the asset. Such investments consist of holdings in mutual funds that in turn are invested in auction rate securities and land that was donated and being held for sale.

The following presents the Foundation's fair value hierarchy for the assets measured at fair value on a recurring basis as of June 30, 2012:

	Level 1	Level 3	Total
Equities	\$ 884,298		\$ 884,298
Mutual funds	305,541	\$350,079	655,620
U.S. government bonds	243,577		243,577
Corporate bonds	115,325		115,325
Gold	2,173		2,173
Land		<u>80,000</u>	<u>80,000</u>
Total investments	<u>1,550,914</u>	<u>430,079</u>	<u>1,980,993</u>
Note receivable		<u>50,158</u>	<u>50,158</u>
	<u>\$1,550,914</u>	<u>\$480,237</u>	<u>\$2,031,151</u>

The mutual funds classified as level 3 are primarily invested in auction rate securities, for which there is no current liquidity in the market. The securities are being carried at cost, which represents the estimated value at which the securities will be redeemed in the future. Such value is management's best estimate of the securities' estimated fair value as of June 30, 2012. The land was donated to the Foundation in 2012 and is being held at fair market value based on the listed price as of June 30, 2012.

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, 2012:

Balances at beginning of year	\$350,000
Donation of land	80,000
Donation of note receivable	57,376
Principal payments of note receivable	(7,218)
Unrealized gain relating to instruments still held at year-end	<u>79</u>
Balances at end of year	<u>\$480,237</u>

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Contributions Receivable

Contributions receivable at June 30, 2012, include the following unconditional promises to give:

Unconditional promises to give:	
Amount receivable, current	\$91,740
Allowance for uncollectible pledges	
Contributions receivable	<u>\$91,740</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 percent per annum through January 2018.

Property and Equipment

Property and equipment as of June 30, 2012, consist of the following:

Building and improvements	\$1,113,939
Furniture and equipment	<u>19,782</u>
	1,133,721
Less: accumulated depreciation	<u>547,237</u>
	586,484
Land	<u>254,740</u>
Net property and equipment	<u>\$ 841,224</u>

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.

Board-Designated Net Assets and Endowments

Designated Net Assets—During 2012, Arizona Western College Foundation designated \$64,733 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.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2012

Of the allowable amount that may be expended annually in compliance with Title V Federal guidelines, 50 percent shall be returned to principal and reinvested, 45 percent shall be distributed for the purposes designated by the Foundation, and 5 percent 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. At the end of the 20-year endowment grant term, the percentage of funds distributed may be increased.

The composition of and changes in the board designated endowment assets for the year ended June 30, 2012, were as follows:

Balance, beginning of year	
Board designations	<u>\$64,733</u>
Balance, end of year	<u>\$64,733</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 \$5,792 as of June 30, 2012. These deficiencies resulted from unfavorable market fluctuations in the endowment funds' investments and continued appropriations that were deemed prudent by the Board of Directors of the Foundation.

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.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2012

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 percent 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 year ended June 30, 2012, follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance as of June 30, 2011	\$404,869	\$1,291,380	\$1,696,249
Contributions	8,690	316,123	324,813
Reclassification of funds	16,601	10,000	26,601
Investment return:			
Investment income	35,988		35,988
Investment expenses	(14,909)		(14,909)
Realized losses	(46,017)		(46,017)
Unrealized losses	<u>(642)</u>	<u> </u>	<u>(642)</u>
Total investment return	(25,580)		(25,580)
Appropriations	<u>(30,405)</u>	<u> </u>	<u>(30,405)</u>
Balance as of June 30, 2012	<u>\$374,175</u>	<u>\$1,617,503</u>	<u>\$1,991,678</u>

Temporarily Restricted

The components of temporarily restricted net assets at June 30, 2012, are as follows:

Endowments	\$374,175
Other investments	336,905
Changing lives pledges	<u>700</u>
Total temporarily restricted net assets	<u>\$711,780</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, 2012

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Environmental Quality Incentives Program, passed through the Xerces Society for Invertebrate Conservation	10.912	None	<u>\$ 921</u>
U.S. Department of the Interior			
Wildland Fire Research and Studies Program	15.232		22,931
U.S. Geological Survey—Research and Data Collection	15.808		<u>11,095</u>
Total U.S. Department of the Interior			<u>34,026</u>
U.S. Department of Justice			
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		<u>143,313</u>
U.S. Department of Labor			
WIA Cluster:			
WIA Cluster, passed through Yuma Private Industry Council, Inc.			
WIA Adult Program	17.258	A2011-07-01/AdultFull	128,314
WIA Youth Activities	17.259	A2011-07-01/ISY, A2011-07-01/OSY, A2011-07-01/Youth, ABE A2012-04-27	393,634
WIA Dislocated Workers	17.260	A2011-07-01/DWFull, A2011-07-01/DWABE	<u>83,069</u>
Total WIA Cluster			<u>605,017</u>
Total U.S. Department of Labor			<u>605,017</u>
National Science Foundation			
Engineering Grants	47.041		13,779
Education and Human Resources	47.076		<u>147,533</u>
Total National Science Foundation			<u>161,312</u>

(Continued)

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, 2012
 (Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Small Business Administration			
Small Business Development Centers, passed through Maricopa County Community College District	59.037	1-603001-Z-0104, 1-603001-Z-0003-19, 1-603001-Z-0003-19-01, 2-603001-Z-0003A, SBAHZ-12-B-0046	<u>\$ 162,403</u>
U.S. Department of Education			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		331,767
Federal Work-Study Program	84.033		322,620
Federal Pell Grant Program	84.063		18,707,746
Federal Direct Student Loans	84.268		<u>2,329,284</u>
Total Student Financial Assistance Cluster			<u>21,691,417</u>
Higher Education—Institutional Aid	84.031		409,566
TRIO Cluster:			
TRIO—Student Support Services	84.042		325,931
TRIO—Talent Search	84.044		278,359
TRIO—Upward Bound	84.047		<u>241,386</u>
Total TRIO Cluster			<u>845,676</u>
Career and Technical Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	11FCTDBG-170521-02A, 12FCTDBG-270521-01A	229,840
Migrant Education—College Assistance Migrant Program	84.149		408,353
Tech-Prep Education, passed through the Arizona Department of Education	84.243	11FCTDTP-170521-01A	46,792
Mathematics and Science Partnerships, passed through Parker Unified School District	84.366	None	3,000
ARRA—State Fiscal Stabilization Fund (SFSF)— Government Services, Recovery Act, passed through Science Foundation Arizona	84.397	OER-11-CON-GS-42	<u>124,025</u>
Total U.S. Department of Education			<u>23,758,669</u>
Total Expenditures of Federal Awards			<u>\$ 24,865,661</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, 2012

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 2012 *Catalog of Federal Domestic Assistance*.

Note 3 - Loans Outstanding

The expenditures reported on the Schedule of Expenditures of Federal Awards for certain programs excluded loan balances outstanding at June 30, 2012, for the Federal Perkins Loan Program—Federal Capital Contributions, CFDA 84.038 of \$6,214.



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, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 20, 2012. Our report was modified to include a reference to our reliance on 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. Other auditors 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. The financial statements of the Arizona Western College Foundation were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 12-01 and 12-02 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 12-03 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors 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 responses to the findings identified in our audit are presented on pages 39 through 41. We did not audit the responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

December 20, 2012



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 with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

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

Compliance

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, 2012. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Yuma/La Paz Counties Community College District complied, in all material respects, with the 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, 2012.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

December 20, 2012

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2012

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified	
		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:			Unqualified
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
84.038	Federal Perkins Loan Program—Federal Capital Contributions
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
84.149	Migrant Education—College Assistance Migrant Program
84.397	ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2012

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, 2012

Financial Statement Findings

12-01

The District needs to establish policies and procedures for granting access to its information system

Criteria: The District should have effective system access controls to prevent and detect unauthorized use, damage, loss, or modification of programs and data, including sensitive and confidential information.

Condition and context: The District did not have adequate policies and procedures for granting logical access to its information system during the year. Access granted was not always adequately supported by documentation or compatible with the users' job responsibilities. In addition, user access roles and security classes were not established and defined, and elevated system access was not controlled, monitored, or limited to essential individuals. Specifically, of the 20 users tested, 8 users' access request forms contained a description requesting that the employee be granted the same access as another employee, rather than requesting access based on the user's job responsibilities, roles, or processes; 5 users' access request forms did not specify the access to be granted; and 1 user did not have an access request form. Further, auditors were unable to determine whether the access granted to 5 of these users was compatible with or necessary for their job responsibilities. Also, auditors noted that the District allowed multiple users to use generic access accounts, thereby resulting in no accountability for the accounts' user activity. Finally, the District did not always remove system access immediately for users whose employment was terminated or who transferred to another department.

Effect: There is an increased risk of theft, manipulation, or misuse of financial, sensitive, or confidential information by unauthorized users or by users whose access was not adequately controlled, restricted, and monitored.

Cause: The District has used the same information system for many years and never established formal policies and procedures for granting, restricting, and monitoring system access.

Recommendation: The District should establish policies and procedures that strengthen access controls and help prevent or detect unauthorized use, damage, or loss of information. These procedures should include the following:

- Document all system access requests to ensure that the appropriate level of system access that is compatible with an employee's job responsibilities is granted and that access is assigned to specific individual users for accountability. Requests for system access should be authorized by the employee's supervisor.
- Develop policies and procedures to help ensure proper separation of responsibilities by defining, assigning, and approving user-access roles and system responsibilities.
- Restrict unlimited and elevated system access to only those individuals who need that level of access.
- Perform a comprehensive review of all existing system users annually to help ensure that access granted is compatible with their job responsibilities.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

- Monitor direct database changes and system access for unusual or suspicious activity, and investigate if found.
- Remove access rights immediately for employees whose employment is terminated or whose position is changed.

This finding is similar to a prior-year finding.

12-02

The District should strengthen change management controls for its information system

Criteria: Changes to the system should be documented, authorized, tested, approved prior to implementation, and reviewed against planned outcomes following implementation. Effective change management controls should ensure changes to the system, programs, and data are valid, meet user needs, and are subject to review and independent approval.

Condition and context: The District did not have policies and procedures in place to ensure that all system changes were properly documented, authorized, tested, and approved prior to implementation. Also, changes were initiated and recorded through multiple sources, including through e-mail. As a result, the District was not able to effectively track the changes made and could not ensure that all changes were documented, authorized, tested, reviewed, and approved prior to implementation. In addition, the District did not ensure that the responsibilities for making system, program, and data changes were adequately separated so that no one person had complete control over the process.

Effect: The District is exposed to the risk of unauthorized or incorrect changes to its information system.

Cause: The District did not have written policies and procedures for making and tracking system and program, and data changes.

Recommendation: To help ensure that the District's information system functions as designed, the District should establish and implement policies and procedures for controlling all changes made to its information system. The District should require all changes be documented, authorized, tested, reviewed, and approved prior to implementation, and reviewed against planned outcomes following implementation. In addition, the responsibilities for developing and implementing changes should be adequately separated from the responsibilities of authorizing, testing, and approving the changes.

This finding is similar to a prior-year finding.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

12-03

The District should test the disaster recovery plan for its information system

Criteria: It is critical that the District have an up-to-date and fully tested contingency plan in place to provide continued operations and to ensure that information can be recovered in the event of a system or equipment failure or other interruption.

Condition and context: During the year, the District updated its disaster recovery plan for its information system; however, it did not fully test the plan.

Effect: The District may be unable to recover financial and student information, and therefore, conduct daily operations in the event of a system or equipment failure or other interruption.

Cause: The District developed a disaster recovery plan, but did not make it a priority to fully test the plan during the year.

Recommendation: To help ensure the continuity of district operations in the event of a system or equipment failure or other interruption, the District should fully test its disaster recovery plan annually.

This finding is similar to a prior-year finding.

Federal Award Findings and Questioned Costs

None reported.

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December 18, 2012

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

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Carole T. Coleman
Vice President for Finance and Administrative Services

Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective Action Plan
Year Ended June 30, 2012

Financial Statement Findings

12-01

The District needs to establish policies and procedures for granting access to its information system

Corrective Action Plan:

The District shall formalize and distribute written policies and procedures for those put in effect in June 2012 that designate data stewards responsible for approving all request for access to screens and processes in their designated functional area.

All supervisors are required to sign and submit a Datatel User Account Application Form. The forms are kept on file at the District's IT Help Desk. The data stewards are contacted with the complete list of screens requested for their functional area. They can approve or deny access to any and all screens. This process is tracked by the District's internal work order management system. The data stewards' responses are printed and attached to the Application Form.

The District's IT Help Desk will complete an audit of Application Forms to ensure that every active user has the appropriate documents on file on or before February 28, 2013.

12-02

The District should strengthen change management controls for its information system

Corrective Action Plan:

The District developed policies and procedures which were implemented effective June 2012. Designated data stewards test and approve all patches and program changes in a non-production environment prior to implementation on production systems.

Currently all work orders in relation to programming changes are tracked and maintained in the District's internal work order management system. All operating system patches are tracked in Service Desk. All information system patches and their approvals are tracked via email. The District shall consolidate all these types of system changes in to a single system by June 2013. It has not yet been determined whether this will be an existing package such as Service Desk or a new change management package.

12-03

The District should test the disaster recovery plan for its information system

Corrective Action Plan:

The District is in the process of testing the disaster recovery plan and will have it corrected by June 30, 2013.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective Action Plan
Year Ended June 30, 2012

The next annual update and testing of the Business Continuity and Disaster Recovery Plan is scheduled for May 2013. The District will distribute addenda as necessary throughout the year to document key changes such as contact information.

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December 4, 2012

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared 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,

Carole T. Coleman
Vice President for Finance and Administrative Services

kmv

Yuma/La Paz Counties Community College District
(Arizona Western College)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Status of Federal Award Findings and Questioned Costs

CFDA No.: 84.007 Federal Supplemental Educational Opportunity Grants
84.032 Federal Family Education Loans
84.033 Federal Work-Study Program
84.063 Federal Pell Grant Program
84.268 Federal Direct Student Loans
84.375 Academic Competitiveness Grants

Finding No: 11-101
Status: Fully Corrected

CFDA No.: 84.048 Career and Technical Education—Basic Grants to States
84.149 Migrant Education—College Assistance Migrant Program

Finding No: 11-102
Status: Fully Corrected