

Yuma/La Paz Counties
Community College District
(Arizona Western College)
Single Audit Reporting Package

June 30, 2002

Yuma/La Paz Counties Community College District
(Arizona Western College)
Single Audit Reporting Package
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(1931 - 1992)

Independent Auditor's Report

The Auditor General of the State of Arizona

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

We have audited the accompanying basic financial statements of Yuma/La Paz Counties Community College District as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Yuma/La Paz Counties Community College District as of June 30, 2002, and the changes in financial position and cash flows of the District for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, for the year ended June 30, 2002.

As discussed in Note 2 to the basic financial statements, Yuma/La Paz Counties Community College District changed its capitalization threshold for capital assets.

The Management's Discussion and Analysis on pages i through iv is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on 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 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Miller, Allen & Co., P.C.

November 14, 2002

November 14, 2002

Management's Discussion and Analysis

This discussion and analysis introduces the basic financial statements and provides an overview of the District's financial activities for the year ended June 30, 2002. Please read it in conjunction with the financial statements, which immediately follow.

Basic Financial Statements:

Beginning with fiscal year 2001-02, the District is required to present annual financial statements in accordance with newly effective pronouncements issued by the Governmental Accounting Standards Board (GASB), the authoritative body for establishing generally accepted accounting principles (GAAP) for state and local governments, including public institutions of higher education. These new pronouncements permit public colleges and universities to use the guidance for special-purpose governments engaged only in business-type activities, in their separately issued financial statements. As such, the reader will observe that the presentation format has shifted from a columnar fund group format to a consolidated, single-column, entity-wide format – similar to the type of financial statements one might encounter from a typical 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, 2002. 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.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and other changes for the year ended June 30, 2002. 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, 2002. 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.

Financial Highlights and Analysis:

Consistent with its mission the District offers educational, career, and lifelong learning opportunities through innovative partnerships which enhance the lives of people in Yuma and La Paz Counties. Major funding sources supporting all functions include property taxes, state appropriations, and tuition and fees. The District exercises primary and secondary property tax levy authority for generation of funds for operating, capital equipment, and debt retirement purposes.

The District has elected to not restate prior periods for purposes of providing the comparative data for this Management's Discussion and Analysis (MD&A). However, in future years, when prior-period information is available, a comparative analysis will be presented. The condensed financial information below highlights the main categories of the Statement of Net Assets. 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. During FY2002, the State of Arizona experienced a shortfall in revenue projections, and therefore all entities receiving state appropriations underwent a budget rescission. The District's cut in state appropriations was 4.8 %. The District reduced its operating budget to reflect this shortfall. During this year the District's full-time student equivalents increased 4.4% in response to District objectives. The District's overall financial position improved when compared to last year.

Condensed Financial Information

Condensed Statement of Net Assets as of June 30, 2002

Assets:

Current assets	\$ 20,261,058
Noncurrent assets, other than capital assets	936,510
Capital assets, net	<u>20,642,915</u>
Total assets	<u>\$ 41,840,483</u>

Liabilities:

Current liabilities	\$ 6,075,347
Noncurrent liabilities	<u>12,267,149</u>
Total liabilities	<u>\$ 18,342,496</u>

Net assets:

Invested in capital assets, net of related debt	\$ 7,047,915
Restricted net assets	3,662,722
Unrestricted net assets	<u>12,787,350</u>
Total net assets	<u>\$ 23,497,987</u>

The condensed financial information below highlights the main categories of the Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues include tuition and fees – net of scholarship discounts and allowances. In compliance with the new reporting pronouncements issued by GASB, scholarship discounts and allowances are now recorded as an offset to revenue, instead of as an expense. Depreciation expense is recorded for the first time this fiscal year, in accordance with the adoption of the full accrual basis of accounting. The construction and acquisition of capital assets, although budgeted and tracked as an expenditure in the accounting system, are not reflected as an expense in these statements. Rather, such transactions are reported as an asset – with the systematic allocation of such costs expensed

over the useful life of the asset constructed or acquired. The District shows an operating loss, reflective of the fact that two of the three main revenue sources – property taxes and state appropriations – are considered nonoperating revenues. For a description of the difference between operating and nonoperating, please refer to the Summary of Significant Accounting Policies, Note 1 to the basic financial statements.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2002

Revenues

Operating	
Tuition and fees	\$ 2,348,563
Government grants and contracts	9,215,585
Other	2,160,441
Nonoperating	
Property taxes	13,777,997
State appropriations	5,433,200
Investment income	442,131
Share of state sales taxes	465,523
Total revenues	<u>33,843,440</u>

Expenses

Operating	32,136,183
Nonoperating	<u>709,998</u>
Total expenses	<u>32,846,181</u>
Income before other revenues, expenses, gains	997,259
Capital appropriations, grants, and gifts	<u>741,900</u>
Increase in net assets	1,739,159
Total net assets, July 1, 2001	<u>21,758,828</u>
Total net assets, June 30, 2002	<u>\$ 23,497,987</u>

Capital Assets and Debt Administration:

This fiscal year represents the second year of the District's Facility Master Plan begun in 2000 to increase available classroom and support space throughout the District. The plan also includes provisions for major renovation and deferred maintenance projects, energy conservation improvements, and new construction. During this year one major renovation project was partially completed, the south entrance roadway project was also completed, the first phase of the energy management system was completed and construction was begun on a new District services building. Funding for these projects was primarily from primary property taxes and capital appropriations from the state.

For moveable fixed assets (equipment) a new capitalization minimum was established as of July 1, 2001, raising the minimum to \$5,000 from \$1,000. This change resulted in a write off of \$4,197,347. As mentioned previously, equipment and all other capital assets (except land) is reported net of accumulated depreciation for the first time this year in accordance with the new

reporting standards issued by GASB. This has the effect of reducing the book value of overall assets. Depreciation totaled \$ 2,298,402 for the year, and is now shown as an operating expense on the Statement of Revenues, Expenses, and Changes in Net Assets. Additional information on the District's capital assets can be found in Note 5 to the basic financial statements.

At June 30, 2002, the District had four debt issues outstanding - one general obligation bond issue for \$12,405,000 that is funded from secondary property taxes, two revenue bond issues for \$605,000, that are funded from gross revenues of operations for various facilities, and one pledged revenue obligation issue for \$585,000 that is funded primarily from tuition and fees. No additional long-term debt was issued during the fiscal year ended June 30, 2002. Additional information on the District's long-term debt can be found in Note 6 to the basic financial statements.

Current Factors Having Probable Future Financial Significance:

The State of Arizona continues to experience revenue shortfalls that may have an impact on state appropriations to the District in future years. During the 2001/2002 fiscal year, state appropriations to the District was reduced mid-year by \$313,400, or approximately 4.83%. Future reductions are expected, but the precise amount is not known at this time. Contingency plans are being developed to prepare for the effect of future funding reductions.

Proposition 301 was passed by the voters at the general election on November 7, 2000. The proposition increased the state transaction privilege tax rate six-tenths of one per cent for twenty 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 2001/2002 was the first year of this funding and the District received \$465,523. It is anticipated that the District will continue to receive at least this amount for the next nineteen years.

Request for Information

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 Business and Administrative Services, P.O. Box 929, Yuma, Arizona 85366.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Net Assets
 June 30, 2002

Assets

Current assets:

Cash and cash equivalents	\$ 17,674,235
Investments	2,914
Receivables (net of allowances for uncollectibles)	
Property taxes	889,580
Government grants and contracts	799,510
Student loans, current portion	16,874
Interest	17,372
Other	693,109
Prepaid items	167,464
Total current assets	20,261,058

Noncurrent assets:

Restricted assets:

Cash and cash equivalents held by trustees	773,520
Property taxes receivable	144,107
Student loans receivable (net of allowances)	18,883
Capital assets, not being depreciated	1,051,775
Capital assets, being depreciated, net	19,591,140
Total noncurrent assets	21,579,425
Total assets	41,840,483

Liabilities

Current liabilities:

Accounts payable	842,150
Accrued payroll and employee benefits	916,812
Interest payable	350,482
Deposits held in custody for others	1,914,636
Deferred revenues	140,104
Current portion of compensated absences payable	99,163
Current portion of long-term debt	1,812,000
Total current liabilities	6,075,347

Noncurrent liabilities:

Compensated absences payable	484,149
Long-term debt	11,783,000
Total noncurrent liabilities	12,267,149
Total liabilities	18,342,496

Net Assets

Invested in capital assets, net of related debt	7,047,915
Restricted:	
Expendable:	
Grants and contracts	326,727
Loans	126,497
Debt service	1,586,453
Capital projects	1,623,045
Unrestricted	12,787,350
Total net assets	\$ 23,497,987

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
 Year Ended June, 2002

Operating revenues:	
Government grants and contracts	\$ 9,215,585
Private grants and contracts	268,020
Pledged for revenue bonds and other obligations:	
Tuition and fees (net of scholarship allowances of \$2,498,692)	2,348,563
Bookstore income	145,996
Food service income	525,921
Dormitory rentals and fees	411,732
Other	808,772
Total operating revenues	13,724,589
Operating expenses:	
Educational and general:	
Instruction	11,817,273
Public service	195,348
Academic support	2,218,609
Student services	2,996,549
Institutional support	3,785,664
Operation and maintenance of plant	2,773,405
Scholarships	3,407,920
Auxiliary enterprises	2,643,013
Depreciation	2,298,402
Total operating expenses	32,136,183
Operating loss	(18,411,594)
Nonoperating revenues (expenses):	
Property taxes	13,777,997
State appropriations	5,433,200
Share of state sales taxes	465,523
Investment income	442,131
Interest expense on debt	(700,965)
Other nonoperating expenses	(9,033)
Total nonoperating revenues (expenses)	19,408,853
Income before other revenues, expenses, gains, or losses	997,259
Capital appropriations	741,900
Increase in net assets	1,739,159
Total net assets, July 1, 2001, as restated	21,758,828
Total net assets, June 30, 2002	\$ 23,497,987

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Cash Flows
 Year Ended June 30, 2002

Cash flows from operating activities:	
Tuition and fees	\$ 2,120,027
Grants and contracts	9,655,735
Bookstore receipts	130,652
Food services receipts	525,921
Dormitory rentals and fees	461,920
Collection of loans to students	40,220
Other receipts	1,122,227
Payments to suppliers and providers of goods and services	(11,288,747)
Payments to employees	(18,232,371)
Net cash used for operating activities	<u>(15,464,416)</u>
Cash flows from noncapital financing activities:	
Property taxes	13,751,909
State appropriations	5,433,200
Share of state sales taxes	465,523
Other nonoperating expenses	(9,033)
Agency transactions, net	(1,114,486)
Net cash provided by noncapital financing activities	<u>18,527,113</u>
Cash flows from capital and related financing activities:	
Capital appropriations	741,900
Principal paid on capital debt	(1,595,000)
Interest paid on capital debt	(740,694)
Purchases of capital assets	(1,496,286)
Net cash used for capital and related financing activities	<u>(3,090,080)</u>
Cash flows from investing activities:	
Interest received on investments	<u>479,241</u>
Net cash provided by investing activities	<u>479,241</u>
Net increase in cash and cash equivalents	451,858
Cash and cash equivalents, July 1, 2001	<u>17,995,897</u>
Cash and cash equivalents, June 30, 2002	<u>\$ 18,447,755</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Cash Flows
 Year Ended June 30, 2002

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$(18,411,594)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	2,298,402
Changes in assets and liabilities:	
Increase in:	
Other receivables	(272,867)
Prepaid items	(99,280)
Accounts payable	248,172
Deferred revenues	140,104
Compensated absences	583,312
Decrease in:	
Government grants and contracts receivable	424,656
Student loans receivable	40,220
Accrued payroll and employee benefits	(415,541)
Net cash used for operating activities	\$(15,464,416)

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2002

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Yuma/La Paz Counties Community College 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). During the year ended June 30, 2002, the District implemented GASB Statement No. 35, which prescribes a new reporting model for public colleges within the reporting guidelines of GASB Statement No. 34, as amended by GASB Statement No. 37. The District also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

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. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity.

The financial activities of the Arizona Western College Foundation and the El Toro Foundation are not included in the District's financial statements. The Foundations are nonprofit corporations controlled by separate boards of directors. The goals of the Foundations are to promote educational programs and District objectives.

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 District obligations. Invested in capital assets net of related debt represents the net value of capital assets less the debt incurred to acquire or construct the asset. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

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. Generally, revenues generated by the District

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2002

for instruction and public service are considered to be operating revenues. Other revenues used for instruction and public service, such as property taxes and state appropriations, are not generated from operations and are considered to be nonoperating revenues.

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

The financial statements are reported 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 restricted and unrestricted 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.

C. Cash and Investments

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 one year or less at 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:

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2002

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$5,000		
Land improvements	5,000		
Buildings	5,000	Straight line	40 years
Other improvements	5,000	Straight line	15 years
Equipment	5,000	Straight line	5 years
Library books	5,000	Straight line	10 years

E. Compensated Absences

Compensated absences consist of vacation leave earned by employees based on services already rendered. Employees may accumulate up to 330 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued.

F. Investment Income

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

G. Scholarship Allowances

A scholarship allowance is the difference between the stated charge for goods and services provided by the District and the amount that is paid by the student or third parties making payments on behalf of the student. 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 - Beginning Balances Restated

The District's aggregate fund balances reported as of June 30, 2001, totaling \$51,135,309, have been restated as beginning net assets of \$21,758,828. The restatement is attributable to the following items:

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2002

Aggregate fund balances as of June 30, 2001, as previously reported	\$ 51,135,309
1. Cumulative effect of change in capital asset capitalization threshold	(4,197,347)
2. Cumulative effect of implementing GASB Statement No. 35 – recording accumulated depreciation on capital assets	<u>(25,179,134)</u>
Net assets as of July 1, 2001, as restated	<u>\$ 21,758,828</u>

Note 3 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) require the District to deposit special tax levies for the District's maintenance or capital outlay with the County Treasurer. The statutes do not require the District to deposit other public monies in its custody with the County Treasurer; however, the District must act as a prudent person dealing with the property of another when making investment decisions about those monies.

Deposits - At June 30, 2002, cash on hand was \$2,000, the carrying amount of the District's deposits was \$609,033 and the bank balance was \$2,322,930. Of the bank balance, \$163,463 was covered by federal depository insurance and \$2,159,467 was covered by collateral held by the pledging financial institution's trust department or agent in the District's name in book entry form.

Investments - The District's investments at June 30, 2002 consisted of the following:

	Fair Value
Common stock	\$ 2,914
Money market mutual funds	715,845
State Treasurer's investment pool	11,023,294
Cash and investments held by the County Treasurer	<u>6,097,583</u>
Total	<u>\$ 17,839,636</u>

The District's investment in the State or County Treasurer's investment pools represents a proportionate interest in those pools' portfolios; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk. The same is true for the District's investments in U.S. government securities money market accounts. The common stock was registered in the District's name, or was held by the District or its agent in the District's name.

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. No comparable oversight is provided for the County Treasurer's investment pool, and that pool's structure does not provide for shares.

Yuma/La Paz Counties Community College District
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Notes to Financial Statements
June 30, 2002

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

Cash and investments:		Statement of Net Assets:	
Cash on hand	\$ 2,000	Cash and cash equivalents	\$ 17,674,235
Carrying amount of deposits	609,033	Current investments	2,914
Reported amount of investments	17,839,636	Restricted assets:	
	<u> </u>	Cash and cash equivalents held by trustees	<u>773,520</u>
Total	<u>\$ 18,450,669</u>	Total	<u>\$ 18,450,669</u>

Note 4 - Student Loan Receivables

A summary of student loan receivables and the related allowance for uncollectibles follows:

<u>Receivables</u>	<u>Gross Receivable</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivable</u>
Student loans:			
Current	\$ 71,156	\$ (54,282)	\$ 16,874
Noncurrent	77,084	(58,201)	18,883
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 148,240</u>	<u>\$ (112,483)</u>	<u>\$ 35,757</u>

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Balance July 1, 2001, As restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2002</u>
Capital assets not being depreciated:				
Land	\$ 543,607			\$ 543,607
Construction in progress, (estimated cost to complete \$1,721,940)	17,178	\$ 508,168	\$ 17,178	508,168
Total capital assets not being depreciated	<u>560,785</u>	<u>508,168</u>	<u>17,178</u>	<u>1,051,775</u>
Capital assets being depreciated:				
Buildings	31,278,441	157,668		31,436,109
Equipment	4,998,963	252,425	355,270	4,896,118
Other improvements	8,410,333	506,083	330,119	8,586,297
Library books	1,375,643	89,120		1,464,763
Total capital assets being depreciated	<u>46,063,380</u>	<u>1,005,296</u>	<u>685,389</u>	<u>46,383,287</u>
Less accumulated depreciation for:				
Buildings	14,474,688	1,294,228		15,768,916
Equipment	4,316,915	293,239	355,270	4,254,884
Other improvements	5,490,121	618,798	330,119	5,778,800
Library books	897,410	92,137		989,547
Total accumulated depreciation	<u>25,179,134</u>	<u>2,298,402</u>	<u>685,389</u>	<u>26,792,147</u>
Total capital assets being depreciated, net	<u>20,884,246</u>	<u>(1,293,106)</u>		<u>19,591,140</u>
Capital assets, net	<u>\$ 21,445,031</u>	<u>\$ (784,938)</u>	<u>\$ 17,178</u>	<u>\$ 20,642,915</u>

Yuma/La Paz Counties Community College District
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 Notes to Financial Statements
 June 30, 2002

Note 6 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Due within one year
Compensated absences payable	\$525,263	\$58,049		\$583,312	\$99,163
Bonds payable:					
Revenue bonds	\$ 740,000		\$ 135,000	\$ 605,000	\$ 140,000
General obligation bonds	13,595,000		1,190,000	12,405,000	1,250,000
Pledged revenue obligations	855,000		270,000	585,000	422,000
Total bonds payable	\$15,190,000		\$1,595,000	\$13,595,000	\$1,812,000

Revenue Bonds Payable – The District's revenue bonds of 1971 and 1992 were issued to provide monies to acquire, construct, equip, and furnish dormitories, a college union, classroom facilities, and appurtenant facilities. The bonds are payable solely from special sinking funds that are funded by stipulated amounts of gross revenues from the operations of various facilities. The 1992 bonds are subject only to the superior rights of the holders of previously issued bonds. Both issues are generally callable and interest is payable semiannually. In accordance with the bond indentures, the required repair and replacement account and debt service reserve funds have been established and all requirements as of June 30, 2002, have been met.

Revenue bonds outstanding at June 30, 2002, were as follows:

Description	Original Amount	Interest Rates	Maturities	Outstanding Principal
Series A of 1971	\$ 1,700,000	6.9 – 7%	7/1/02-10	\$ 505,000
Series of 1992	750,000	6.0%	7/1/02	100,000
			Total	\$ 605,000

Revenue bond debt service requirements to maturity, including \$178,525 of interest, are as follows:

Yuma/La Paz Counties Community College District
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Year ending June 30,	
2003	\$ 176,950
2004	75,975
2005	77,650
2006	74,150
2007	75,475
2008-2011	<u>303,325</u>
Total	<u>\$ 783,525</u>

General Obligation Bonds Payable – General obligation bonds payable at June 30, 2002, consisted of the outstanding general obligation bonds presented below. The bonds are generally callable with interest payable semiannually.

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, 2002, were as follows:

Description	Original Amount	Interest Rates	Maturities	Outstanding Principal
Series of 1993	\$ 16,355,000	3.7 – 6.25%	7/1/02 – 11	\$ 12,405,000

General obligation bond debt service requirements to maturity, including \$2,846,492 of interest, are as follows:

Year ending June 30,	
2003	\$ 1,852,448
2004	1,850,829
2005	1,850,210
2006	1,855,272
2007	1,850,072
2008-2012	<u>5,992,661</u>
Total	<u>\$ 15,251,492</u>

Pledged Revenue Obligations – The District pledged revenue obligations of 1998 were issued to partially fund the acquisition, construction and equipping of an academic complex. The obligations are payable from a pledge of, and secured by a lien on, all tuition, fees, rentals and other charges from students, faculty and others. The

Yuma/La Paz Counties Community College District
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obligations are noncallable with interest payable semiannually. In accordance with the trust agreement, the required debt service reserve fund has been established and all requirements as of June 30, 2002, have been met.

Pledged revenue obligations outstanding at June 30, 2002, were as follows:

Description	Original Amount	Interest Rates	Maturities	Outstanding Principal
Series of 1998	\$ 1,370,000	4.6 – 5.9%	7/1/02 – 03	\$ 585,000

Pledged revenue obligation debt service requirements to maturity, including \$27,540 of interest, are as follows:

Year ending June 30,	
2003	\$ 305,640
2004	<u>306,900</u>
Total	<u>\$ 612,540</u>

Note 7 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The District is a member of the Yuma Area Benefit Consortium which provides life insurance, accidental death and dismemberment, disability, basic or major medical coverage for accidents or sicknesses, as well as dental insurance coverage to its employees through the Consortium. The Consortium, currently composed of three members, provides benefits up to \$75,000 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

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 Notes to Financial Statements
 June 30, 2002

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.

Note 8 - Retirement Plan

Plan descriptions - The District contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (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, 2002, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2002, 2001, and 2000 were \$636,632, \$631,854, and \$618,174, respectively, which were equal to the required contributions for the year.

Note 9 - Operating Expenses

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

Personal services	\$ 18,400,142
Contract services	2,444,401
Supplies and other services	1,865,356
Communications and utilities	1,143,072
Scholarships	3,407,920
Depreciation	2,298,402
Other	2,576,890
Total	<u>\$ 32,136,183</u>

Supplementary Information

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
National Aeronautics and Space Administration			
Passed through United Negro College Fund Curriculum Improvement Partnership Award Program For Minority – Serving Institutions (CIPA)	43.Unknown	NCC5-411	<u>\$ 3,943</u>
U.S. Department of the Interior			
Passed through Cocopah Indian Tribe Vocational Training	15.Unknown	None	<u>15,514</u>
National Science Foundation			
Geosciences	47.050		51,108
Education and Human Resources	47.076		<u>35,987</u>
Total National Science Foundation			<u>87,095</u>
U.S. Department of Housing and Urban Development			
Title IV – College Housing Program	14.Unknown		<u>30,988</u>
U.S. Department of Justice			
Passed through Arizona State Department of Justice Byrne Formula Grant Program	16.579	None	<u>17,207</u>
U.S. Department of Labor			
Passed through Office of the Governor Employment Services and Job Training- Pilot and Demonstration Programs	17.249	A9-0023-001	55,839
Passed through Yuma County WIA Adult Program	17.258	AWC99-IIA-C, E5702015	504,008
WIA Youth Activities	17.259	AWC99-IIA-C, E5702015	<u>492,102</u>
Total U.S. Department of Labor			<u>1,051,949</u>
U.S. Small Business Administration			
Passed through Maricopa County Community College District Small Business Development Center	59.037	0-7620-0003-08	<u>46,742</u>
U.S. Department of Education			
Student Financial Aid Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		229,016
Federal Work Study Program	84.033		277,056
Federal Perkins Loan Program – Federal Capital Contributions	84.038		156,072
Federal Pell Grant Program	84.063		<u>5,440,990</u>
Total Student Financial Aid Cluster			<u>6,103,134</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, 2002
 (Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
TRIO Cluster:			
Student Support Services	84.042		230,485
Talent Search	84.044		239,621
Upward Bound	84.047		216,780
Total TRIO Cluster			<u>686,886</u>
Higher Education- Institutional Aid	84.031		335,511
Child Care Access Means Parents in School	84.335		6,166
Bilingual Education – Professional Development	84.195		64,233
Passed through State Board of Directors for Community Colleges			
Vocational Education – Basic Grants to States	84.048	30010	160,636
Passed through Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	None	16,844
Passed through Arizona Department of Education			
Tech-Prep Education	84.243	OOFUEDTP-070521-01A	122,587
Passed through Somerton School District			
Adult Education – State Grant Program	84.002	00FAEABE-070065-10A	46,195
Total U.S. Department of Education			<u>7,542,192</u>
 Total Expenditures of Federal Awards			 <u><u>\$8,795,630</u></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, 2002

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Yuma/La Paz Counties Community College District and is presented on the full 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 2002 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the federal contract number was used.

Note 3 - Loans Outstanding

The expenditures reported on the Schedule of Expenditures of Federal Awards for certain programs included loan balances outstanding at June 30, 2002, as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Federal Perkins Loan Program – Federal Capital Contributions	84.038	\$148,240

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(1931 - 1992)

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor General of the State of Arizona

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

We have audited the basic financial statements of Yuma/La Paz Counties Community College District as of and for the year ended June 30, 2002, and have issued our report thereon dated November 14, 2002, which was modified due to the District implementing a new financial reporting model, as required by the provisions of GASB Statement No. 35 – *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* and due to a change in the capitalization threshold for capital assets. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Governing Board, federal awarding agencies, and pass-through entities. It 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.

Miller, Allen & Co., P.C.

November 14, 2002

MILLER, ALLEN & CO., P.C.

Certified Public Accountants

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**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

The Auditor General of the State of Arizona

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

Compliance

We have audited the compliance of Yuma/La Paz Counties Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the Summary of Auditor's 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 on the District's compliance with those requirements.

In our opinion, Yuma/La Paz Counties Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our 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.

Our consideration of internal control over compliance would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Governing Board, federal awarding agencies, and pass-through entities. It 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.



November 14, 2002

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2002

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:		unqualified	
	YES	NO	
Material weakness identified in internal control over financial reporting?	___	X	
Reportable condition identified not considered to be material weakness?	___	X	(none reported)
Noncompliance material to the financial statements noted?	___	X	

Federal Awards

Material weakness identified in internal control over major programs?	___	X	
Reportable condition identified not considered to be a material weakness?	___	X	(none reported)
Type of auditor's 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])?	___	X	

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
17.258	WIA Adult Program
17.259	WIA Youth Activities
Student Financial Aid Cluster of Programs:	
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:		\$300,000	
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	
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Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Section II - Financial Statement Findings

No matters were reported.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Section III - Federal Award Findings and Questioned Costs

No matters were reported.