Yuma/La Paz Counties Community College District
(Arizona Western College)

Annual Financial and Single Audit Report

Year Ended June 30, 2019

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

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

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MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

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

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Yuma/La Paz Counties Community College District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of the District as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other matters

Required supplementary information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-6, schedule of the District's proportionate share of the net pension liability on page 28, and schedule of District pension contributions on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information—schedule of expenditures of federal awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Lindsey Perry, CPA, CFE
Auditor General

December 5, 2019

Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's discussion and analysis
Year ended June 30, 2019

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the District's basic financial statements, which immediately follow.

Basic Financial Statements

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

The Statement of Net Position reflects the financial position of the District at June 30, 2019. It shows the various assets owned or controlled, outflows of resources applicable to future reporting periods, related liabilities and other obligations, inflows of resources applicable to future reporting periods, and the various categories of net position. Net position is an accounting concept defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, and as such, represents institutional equity or ownership in the District's total assets. Over time, increases or decreases in net position may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position reflects the results of operations and other changes for the year ended June 30, 2019. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net position amount to the ending net position amount, which is shown on the Statement of Net Position described above.

The Statement of Cash Flows presents the inflows and outflows of cash and cash equivalents for the year ended June 30, 2019. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Position described above. In addition, this statement reconciles cash flows from operating activities to operating income/loss on the Statement of Revenues, Expenses and Changes in Net Position described above.

This document's primary focus is on the results of activity for the fiscal year ended June 30, 2019. 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, 2019

Condensed Financial Information

Net Position—Primary Government
As of June 30

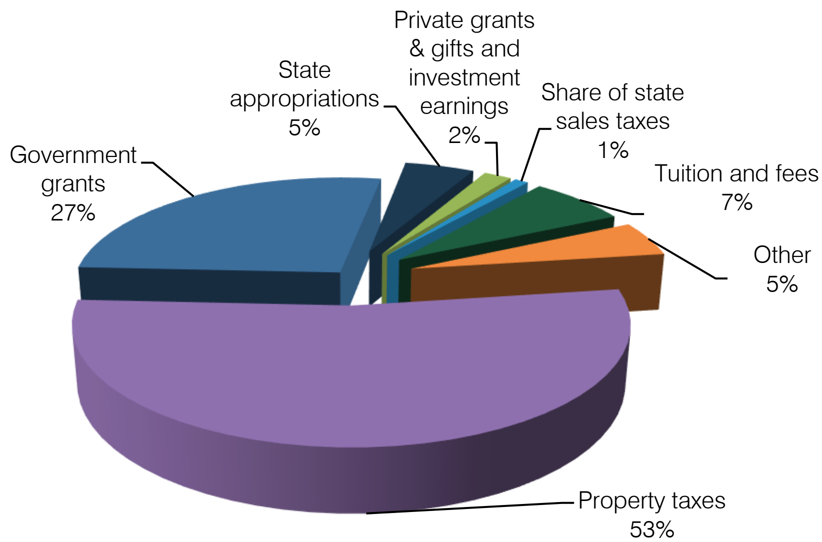
	2019	2018
Assets:		
Current assets	$ 42,911,863	$ 42,244,528
Noncurrent assets, other than capital assets	308,394	282,815
Capital assets, net	77,709,112	81,671,150
Total assets	120,929,369	124,198,493
Deferred outflows of resources:	6,983,437	6,753,776
Liabilities:		
Current liabilities	8,351,714	8,330,264
Long-term liabilities	83,539,934	90,504,718
Total liabilities	91,891,648	98,834,982
Deferred inflows of resources:	5,180,118	4,674,668
Net Position:		
Net investment in capital assets	26,870,939	27,665,227
Restricted	2,498,473	3,431,382
Unrestricted	1,471,628	(3,653,990)
Total net position	$ 30,841,040	$ 27,442,619

Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's discussion and analysis
Year ended June 30, 2019

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

	2019	2018
Revenues		
Operating		
Tuition and fees (net of scholarship allowances)	$ 5,063,780	$ 4,885,692
Other (net of scholarship allowances)	3,296,692	3,470,290
Nonoperating		
Property taxes	35,903,056	33,580,106
State appropriations	3,456,600	3,467,600
Government grants	18,191,938	19,415,371
Share of state sales taxes	857,382	988,751
Private grants and gifts	711,270	781,284
Investment earnings	678,929	219,620
Other nonoperating revenues		7,441
Gain on disposal of capital assets	265,739	
Capital grants and gifts	4,359	6,796
Total revenues	68,429,745	66,822,951
Expenses		
Operating	63,211,813	62,650,794
Nonoperating	1,819,511	1,928,884
Total expenses	65,031,324	64,579,678
Increase/decrease in net position	3,398,421	2,243,273
Total net position, July 1	27,442,619	25,199,346
Total net position, June 30	$30,841,040	$27,442,619

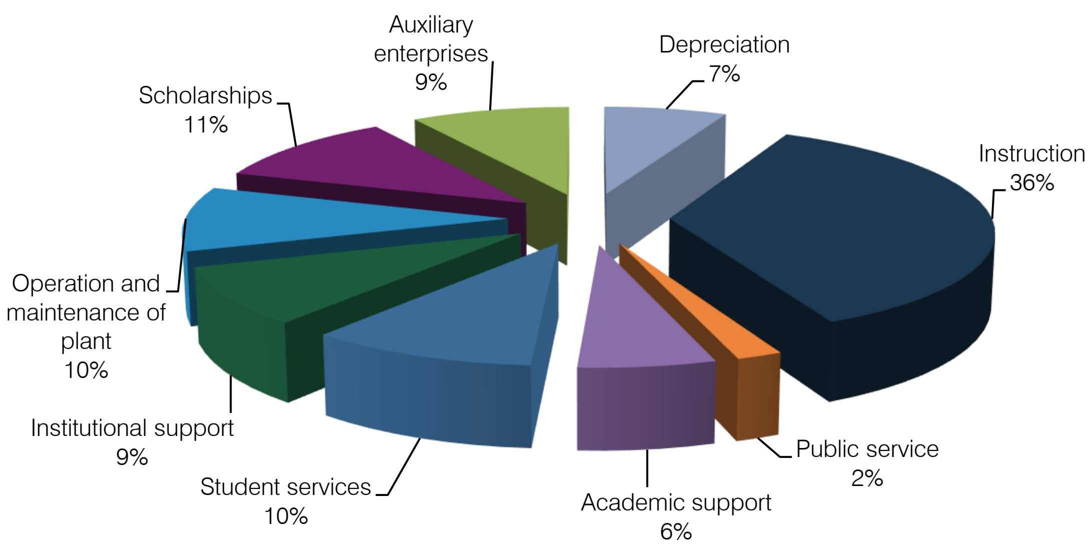
Percent of 2019 Revenues by Source



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

	2019	2018
Operating expenses		
Educational and general:		
Instruction	$22,951,516	$21,689,053
Public service	1,232,535	1,248,207
Academic support	3,905,068	3,685,953
Student services	6,175,029	5,972,365
Institutional support	5,717,068	7,324,386
Operation and maintenance of plant	6,071,870	6,000,097
Scholarships	7,030,731	6,647,895
Auxiliary enterprises	5,622,743	5,536,489
Depreciation	4,505,252	4,546,349
Total operating expenses	63,211,812	62,650,794
Nonoperating expenses		
Interest expense on debt	1,815,354	1,928,884
Other nonoperating expenses	4,157	
Total nonoperating expenses	1,819,511	1,928,884
Total expenses	$65,031,323	$64,579,678

Percent of 2019 Operating Expenses by Category



Financial Highlights and Analysis

Financial Position

The District's overall net position improved in 2019 as explained below. Total assets and deferred outflows of resources decreased by nearly $3.0 million from June 30, 2018 to June 30, 2019. This decrease is primarily due to an increase in current assets of over $667,000, a decrease in capital assets of approximately $4.0 million, and an increase in deferred outflow of approximately $230,000.

Total liabilities and deferred inflows of resources decreased by over $6.4 million. This decrease is primarily due to a decrease for accounts payable and accrued payroll of over $665,000, an increase in unearned revenues of over $609,000, an increase in employee compensated absences payable of over $128,000, a decrease in long-term debt of approximately $3.5 million due to the paying down of General Obligation (G.O.) Bonds, and an decrease in net pension liability of approximately $3.5 million and an increase in deferred inflows related to pensions of over $505,000 due ASRS actuarial adjustments.

Total net position for the District improved from fiscal year 2018 to fiscal year 2019 with an increase of approximately $3.4 million. By net position category, there was a decrease in net investment in capital assets of over $794,000 due to increased annual depreciation offset by the sale of a Parker building and adjacent lot, and a decrease in outstanding general obligation bonds. A decrease in restricted assets of approximately $785,000 is due to lower Federal grant activity, and the increase in unrestricted net position of approximately $5.1 million is due to an increase in tax levy, an increase of earnings on investments, a decrease in personnel costs due to the difficulty of attracting qualified candidates, the recapture of wages from retirements to new entry wages for their replacement, and the benefit of ASRS reporting.

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 non-operating revenues.

For fiscal year 2019 the District's total revenues and capital grants and gifts increased by over $1.6 million from fiscal year 2018. The following revenue sources make up a significant portion of this total increase:

- Tuition and fees increased by over $178,000 primarily because of the in-state and out-of state tuition increases.
- Other operating revenues decreased by approximately $174,000 due to the slight decline in each of the bookstore, dormitory, and board revenues. Bookstore revenues have declined slightly because the District is moving towards open educational resource (OER) which provides student access to openly licensed textbooks. Dorm and board revenues have declined as the District terminated its football program.
- Government grants decreased by over $1.2 million because of the slowdown of spending on a major federal grant and grant funded projects that were ending.

- Property taxes increased by over $2.3 million due to the exhaustion of previously-established reserves when the Series 2005 and 2006 G.O. Bonds were refinanced in 2014 and 2016. The increased property valuations and increased new construction are no longer offset by the benefit of using the reserves.
- State appropriations decreased by $11,000 because of decreased state aid.
- Investment earnings increased by over $459,000 because of unrealized gains on investments and an increase of earnings on the District's investments.

Total operating expenses increased by over $561,000 from fiscal year 2018 to fiscal year 2019. This reflects approximately a $1.3 million increase in instruction, approximately $16,000 decrease in public service, over $219,000 increase in academic support, approximately $203,000 increase in student services, approximately $72,000 increase in operations and maintenance, over $86,000 increase in auxiliary enterprises, over $41,000 decrease in depreciation, over $382,000 increase in scholarships, and over $1.6 million decrease in institutional support. Many of these increases were due to the increased cost of general operations, which includes salary increases. The decreases are the result of the continuing effort to reduce utility costs, accounting for the net pension expense, and more prudent fiscal operations. Scholarships increased due to a one-time GEAR UP scholarship program.

Non-operating expenses decreased by over $109,000 primarily because of decreased bond interest due on a lower long-term debt balance.

Capital Assets and Debt Administration

The District's capital assets, net of accumulated depreciation, totaled over $77.7 million as of June 30, 2019. Capital assets include land, buildings, improvements other than buildings, equipment, and library books. Additional information on capital assets can be found in detail in Note 3 to the District's basic financial statements.

At June 30, 2019, the District had three general obligation bond issues totaling approximately $48.8 million. Additional information on the District's long-term debt can be found in Note 4 to the basic financial statements.

Current Factors Having Probable Future Financial Significance

Arizona Western College, in collaboration with the AWC Foundation, was awarded with a $400,000 Infrastructure and Capacity-Building Challenge Grant from the National Endowment for the Humanities. The funds, as well as a 1-to-1 match requirement, will be used to enhance student learning experiences by expanding AWC's academic library services over the next four years.

The Arizona Legislature's passed budget included a one-time, $14.2 million FY20 investment to rural community colleges. The District's portion is $2.5 million. The intended use of the one-time, $2.5 million is undetermined at this time and will be placed in reserves until a determination is made to apply the $2.5 million towards an identified element of the District's strategic goals.

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, PO Box 929, Yuma, AZ 85366.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of net position—primary government
June 30, 2019

	Business-type activities
Assets	
Current assets:	
Cash and cash equivalents	$ 19,718,943
Investments	15,938,344
Receivables (net of allowances for uncollectibles):	
Property taxes	1,957,584
Government grants and contracts	1,894,179
Interest	55,032
Other	2,623,022
Prepaid items	724,759
Total current assets	42,911,863
Noncurrent assets:	
Restricted assets:	
Property taxes receivable (net of allowances for uncollectibles)	308,394
Capital assets, not being depreciated	504,690
Capital assets, being depreciated, net	77,204,422
Total noncurrent assets	78,017,506
Total assets	120,929,369
Deferred outflows of resources	
Deferred outflows related to pensions	4,979,297
Deferred charge on debt refunding	2,004,140
Total deferred outflows of resources	6,983,437
Liabilities	
Current liabilities:	
Accounts payable	1,162,228
Accrued payroll and employee benefits	859,182
Interest payable	983,045
Unearned revenues	1,185,555
Deposits held in custody for others	407,362
Current portion of compensated absences payable	188,413
Current portion of long-term debt	3,565,929
Total current liabilities	8,351,714

(Continued)

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of net position—primary government
June 30, 2019
(Continued)

	Business-type activities
Noncurrent liabilities:	
Compensated absences payable	$ 1,251,249
Long-term debt	49,228,552
Net pension liability	33,060,133
Total noncurrent liabilities	83,539,934
Total liabilities	91,891,648
Deferred inflows of resources	
Deferred inflows related to pensions	5,132,284
Deferred credit on debt refunding	47,834
Total deferred inflows of resources	5,180,118
Net position	
Net investment in capital assets	26,870,939
Restricted:	
Expendable:	
Grants and contracts	1,905,096
Debt service	(235,994)
Capital projects	829,371
Unrestricted (deficit)	1,471,628
Total net position	$ 30,841,040

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of financial position—component unit
June 30, 2019

	Arizona Western College Foundation
Assets	
Current assets:	
Cash and cash equivalents	$ 250,548
Other assets	2,506
Total current assets	253,054
Noncurrent assets:	
Investments	6,973,188
Total assets	$ 7,226,242
Liabilities and net assets	
Current liabilities:	
Accounts payable	$ 26,576
Compensated absences	5,811
Total current liabilities	32,387
Noncurrent liabilities:	
Compensated absences	3,260
Total liabilities	35,647
Net assets	
Without donor restrictions:	
Undesignated	1,299,818
Designated by the Board	392,240
With donor restrictions:	
Time restricted	443,476
Purpose restricted	3,234,623
Perpetual in nature	1,820,438
Total net assets	7,190,595
Total liabilities and net assets	$ 7,226,242

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of revenues, expenses, and changes in net position—primary government
Year ended June 30, 2019

	Business-type activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of $8,081,441)	$ 5,063,780
Bookstore income	224,963
Food service income (net of scholarship allowances of $501,628)	2,039,325
Dormitory rentals and fees (net of scholarship allowances of $253,188)	387,773
Other	644,631
Total operating revenues	8,360,472
Operating expenses:	
Educational and general:	
Instruction	22,951,516
Public service	1,232,535
Academic support	3,905,068
Student services	6,175,029
Institutional support	5,717,068
Operation and maintenance of plant	6,071,870
Scholarships	7,030,731
Auxiliary enterprises	5,622,743
Depreciation	4,505,252
Total operating expenses	63,211,813
Operating loss	(54,851,341)
Nonoperating revenues (expenses):	
Property taxes	35,903,056
State appropriations	3,456,600
Government grants	18,191,938
Share of state sales taxes	857,382
Private grants and gifts	711,270
Investment earnings	678,929
Interest expense on debt	(1,815,354)
Other nonoperating expenses	(4,157)
Gain on disposal of capital assets	265,739
Total nonoperating revenues (expenses)	58,245,403
Income before other revenues, expenses, gains, or losses	3,394,062
Capital grants and gifts	4,359
Increase in net position	3,398,421
Net position, July 1, 2018	27,442,619
Net position, June 30, 2019	$ 30,841,040

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, 2019

	Arizona Western College Foundation		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support, and gains			
Contributions	$ 10,385	$ 231,998	$ 242,383
Contributions - in kind	195,611		195,611
Rental income	32,953		32,953
Fundraising income	29,370		29,370
Other income	385		385
Interest and dividends	22,598	162,389	184,987
Investment return, net	31,498	226,923	258,421
Gain on sale of rental property	151,506		151,506
Net assets released from restrictions	345,877	(345,877)	
Total revenue, support, and gains	820,183	275,433	1,095,616
Expenses and losses			
Program services:			
Scholarships	429,517		429,517
Instruction	120,697		120,697
Rental operations	49,114		49,114
Total program expenses	599,328		599,328
Supporting services:			
Management and general	68,830		68,830
Fund-raising	54,022		54,022
Total supporting services	122,852		122,852
Total expenses and losses	722,180		722,180
Changes in net assets	98,003	275,433	373,436
Net assets, beginning of year	1,594,055	5,223,104	6,817,159
Net assets, end of year	$ 1,692,058	$ 5,498,537	$ 7,190,595

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, 2019

	Business-type activities
Cash flows from operating activities:	
Tuition and fees	$ 5,412,450
Bookstore receipts	224,963
Food services receipts	2,039,325
Dormitory rentals and fees	387,773
Other receipts	605,669
Payments to suppliers and providers of goods and services	(23,221,983)
Payments for employee wages and benefits	(40,071,751)
Net cash used for operating activities	(54,623,554)
Cash flows from noncapital financing activities:	
Property taxes	35,826,590
State appropriations	3,456,600
Government grants	17,768,876
Share of state sales taxes	1,025,980
Private grants and gifts	711,270
Other nonoperating expenses	(4,157)
Federal direct lending receipts	603,070
Federal direct lending disbursements	(603,070)
Deposits held in custody for others received	2,276,566
Deposits held in custody for others disbursed	(2,320,204)
Net cash provided by noncapital financing activities	58,741,521
Cash flows from capital and related financing activities:	
Principal paid on capital debt and leases	(3,017,012)
Capital grants and gifts	4,359
Interest paid on capital debt	(2,022,855)
Proceeds from sale of property	433,436
Purchases of capital assets	(710,912)
Net cash used for capital and related financing activities	(5,312,984)
Cash flows from investing activities:	
Interest received on investments	667,194
Net proceeds from sales and maturities of investments	(1,882,590)
Purchases of investments	(500,000)
Net cash used for investing activities	(1,715,396)
Net (decrease) in cash and cash equivalents	(2,910,413)
Cash and cash equivalents, July 1, 2018	22,629,356
Cash and cash equivalents, June 30, 2019	$ 19,718,943

(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, 2019
(Continued)

	Business-type activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (54,851,341)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	4,505,252
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Increase in:	
Other receivables	(293,130)
Prepaid items	(576,290)
Deferred outflows of resources related to pensions	(526,829)
Compensated absences payable	128,160
Unearned revenues	602,839
Deferred inflows of resources related to pensions	509,436
Decrease in:	
Accounts payable	(355,023)
Accrued payroll and employee benefits	(310,252)
Net pension liability	(3,456,376)
Net cash used for operating activities	$ (54,623,554)
Noncash transactions	
Gifts of depreciable and nondepreciable assets	$ 4,359
Amortization of premium on general obligation bonds	443,916
Amortization of deferred inflows/outflows from general obligation bonds	(293,180)

See accompanying notes to financial statements.

Note 1 - Summary of significant accounting policies

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

A. Reporting entity

The District is a special-purpose government that a separately elected governing body governs. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District (the primary government) and its discretely presented component unit, the Arizona Western College Foundation (the Foundation).

The Foundation is a legally separate, tax-exempt organization. It acts primarily as a fund-raising organization that receives gifts and bequests, administers those resources, and disburses payments to or on behalf of the District for scholarships and other special projects. Although the District does not control the timing or amount of receipts from the Foundation, the Foundation's restricted resources can be used only 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, 2019, the Foundation distributed $188,036 to the District for restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office, PO Box 929, Yuma, AZ, 85364-0929.

B. Basis of presentation and accounting

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

A statement of net position provides information about the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net position is classified according to external donor restrictions or availability of assets to satisfy the District's obligations. Net investment in capital assets represents the value of capital assets, net of accumulated depreciation, less any outstanding liabilities incurred to acquire or construct the assets. Nonexpendable restricted net position includes gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net position represents grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net position consists of all other resources, including those that have been designated by management to be used for other than general operating purposes.

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

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

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

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

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

C. Cash and investments

For the statement of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, investments in the State Treasurer's Local Government Investment Pool and only those highly liquid investments with a maturity of 3 months or less when purchased.

All investments are stated at fair value.

D. Capital assets

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

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets are as follows:

	Capitalization threshold	Depreciation method	Estimated useful life
Land	$5,000	N/A	N/A
Construction in progress	5,000	N/A	N/A
Buildings	5,000	Straight-line	20-40 years
Improvements other than buildings	5,000	Straight-line	15 years
Equipment	5,000	Straight-line	5 years
Library books	1	Straight-line	10 years

E. Deferred outflows and inflows of resources

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

F. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Investment earnings

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

H. Scholarship allowances

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

I. Compensated absences

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

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

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

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. A.R.S. does not require the District to deposit other public monies in its custody with the County Treasurer; however, the District must act as a prudent person dealing with another's property when making investment decisions about those monies. A.R.S. requires collateral for deposits at 102 percent of all deposits not covered by federal depository insurance. A.R.S. does not include any requirements for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District's investments.

Deposits—At June 30, 2019, the total cash on hand was $8,501, the carrying amount of the District's deposits was $6,964,024 and the bank balance was $6,964,529 The District does not have a formal policy with respect to custodial credit risk for deposits.

Investments—The District had total investments of $28,684,762 at June 30, 2019. The District categorizes certain investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles as follows:

		Fair value measurement using		
Investments by fair value level	Amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
U.S. Treasury securities	$ 3,811,980	$ -	$ 3,811,980	$ -
U.S. agency securities	11,626,364		11,626,364	
Total investments categorized by fair value level	$15,438,344	$ -	$15,438,344	$ -

Investments categorized as Level 2 are valued using the observed market transactions, independent pricing service, third party counterparty evaluations and discounted cash flow, matrix or model prices with appropriate assumptions based on observable market inputs.

The District also had the following investments in external investment pools measured at fair value:

State Treasurer's investment pools	$ 50,104
County Treasurer's investment pool	13,196,314
Total external investment pools measured at fair value	$13,246,418

Investments in the State Treasurer's investment pools are valued at the pool's share multiplied by the number of shares the District held. The fair value of a participant's position in the pools approximates the value of that participant's pool shares. The investment in the County Treasurer's pool is valued using the District's proportionate participation in the pool because the pool's structure does not provide for shares. The State Board of Investment provides oversight for the State Treasurer's investment pools. No comparable oversight is provided for the County Treasurer's investment pool.

Credit risk—The District does not have a formal policy with respect to credit risk. As of June 30, 2019, 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	$ 50,104
County Treasurer's investment pool	Unrated	Not applicable	13,196,314
U.S. agency securities	Aaa/AA+	Moody's/Standard & Poor's	11,626,364
Total			$24,872,782

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, 2019, of 5 percent or more in Federal National Mortgage Association, Federal Home Loan Mortgage, and Federal Home Loan Bank. These investments were 21 percent, 10 percent, and 7 percent, respectively, of the District's total investments.

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 one to three years.

At June 30, 2019, the District had the following investments in debt securities:

		Investment maturities	
Investment type	Amount	Less than 1 Year	1-5 Years
State Treasurer's investment pool 7	$ 50,104	$ 50,104	
County Treasurer's investment pool	13,196,314	13,196,314	
U.S. Treasury securities	3,811,980	1,166,072	$2,645,908
U.S. agency securities	11,626,364	4,949,636	6,676,728
Total	$28,684,762	$19,362,126	$9,322,636

A reconciliation of cash, deposits, and investments to amounts shown on the statement of net position follows:

Cash, deposits, and investments:		Statement of net position:	
Cash on hand	$ 8,501	Cash and cash equivalents	$19,718,943
Amount of deposits	6,964,024	Investments	15,938,344
Amount of investments	28,684,762		
Total	$35,657,287	Total	$35,657,287

Note 3 - Capital assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets not being depreciated:				
Land	$ 569,215		$ 64,525	$ 504,690
Construction in progress	34,121		34,121	
Total capital assets not being depreciated	603,336		98,646	504,690
Capital assets being depreciated:				
Buildings	117,647,402	$ 46,275	411,661	117,282,016
Equipment	11,434,067	502,718	690,848	11,245,937
Improvements other than buildings	22,510,241	114,224		22,624,465
Library books	1,279,209	81,814	19,720	1,341,303
Total capital assets being depreciated	152,870,919	745,031	1,122,229	152,493,721
Less accumulated depreciation for:				
Buildings	$ 43,784,680	$ 2,843,487	$ 312,760	$ 46,315,407
Equipment	9,603,326	679,054	686,941	9,595,439
Improvements other than buildings	17,660,719	893,317		18,554,035
Library books	754,380	89,757	19,720	824,417
Total accumulated depreciation	71,803,105	4,505,615	1,019,421	75,289,299
Total capital assets being depreciated, net	81,067,814	(3,760,584)	102,808	77,204,422
Capital assets, net	$ 81,671,150	$(3,760,584)	$ 201,454	$ 77,709,112

In the library books, buildings, and improvements other than buildings categories, the July 1, 2018 balances have been restated. $69,483 of library books increases in assets and accumulated depreciation have been recategorized as previous years' increase. $363 of buildings and improvements other than buildings accumulated depreciation has been recategorized.

Note 4 - Long-term liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due within 1 year
General obligation bonds	$51,720,000		$2,875,000	$48,845,000	$2,980,000
Premiums	4,038,613		443,917	3,594,696	443,917
Total bonds payable	$55,758,613		$3,318,917	$52,439,696	$3,423,917

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due within 1 year
Capital leases payable	$ 496,797		$ 142,012	$ 354,785	$ 142,012
Net pension liability	36,516,509		3,456,376	33,060,133	
Compensated absences payable	1,311,502	$1,229,255	1,101,095	1,439,662	188,413
Total long-term liabilities	$94,083,421	$1,229,255	$8,018,400	$87,294,276	$3,754,342

General obligation bonds payable—General obligation bonds payable at June 30, 2019, consisted of the outstanding general obligation bonds presented below. The bonds are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. Bonds have also been issued to advance-refund previously issued bonds. Principal and interest on the bonds are payable from an ad valorem tax levied against all the taxable property in the District. The bonds issued are payable from such a tax without limit as to rate or amount.

General obligation bonds outstanding at June 30, 2019 were as follows:

Description	Original amount issued	Interest rates	Maturity ranges	Outstanding principal
General obligation bonds—series 2014	$28,665,000	1.00–5.00%	7/1/2019-25	$22,020,000
General obligation refunding bonds—series 2014A	16,535,000	1.00–5.00%	7/1/2019-30	16,035,000
General obligation refunding bonds—series 2016	10,895,000	2.60%	7/1/2019-31	10,790,000
				$48,845,000

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

	Principal	Interest
Year ending June 30		
2020	$ 2,980,000	$ 1,966,090
2021	3,110,000	1,848,360
2022	3,255,000	1,710,500
2023	3,365,000	1,613,290
2024	3,535,000	1,447,800
2025-29	20,620,000	4,491,340
2030-32	11,980,000	615,700
Total	$48,845,000	$13,693,080

Note 5 - Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with 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, property, cyber, automobile, boiler, and machinery liability; and commercial crime risks. The coverage limits and deductibles are listed below:

Coverage	Limit	Deductible
General	$10,000,000/occurrence	None
	Employer's liability: $2,000,000/accident or disease	$500,000/accident or disease
	Cyber Liability: $5,000,000/occurrence	$5,000/occurrence
Professional	Administrative practices: $150,000/claim, $300,000 aggregate	None
	Criminal legal defense: $100,000/claim, $200,000 aggregate	None
Property	Total insurable value: $119,028,385	$1,000/occurrence
Automobile	$10,000,000/occurrence	None
	$15,000 each person/$250,000 each accident underinsured/ uninsured motorist	
Commercial crime	$1,500,000/occurrence	$100/occurrence

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

In addition, the District is a member of the Yuma Area Benefit Consortium (the Consortium), which provides 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 three voting entities and some small non-voting agencies, 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 a set amount to the Consortium for each eligible employee. The District charges participating employees a contribution rate, depending on the health plan chosen by the employee. 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 6 - Pension

Plan description—District employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website as www.azasrs.gov.

Benefits provided—The ASRS provides retirement and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial membership date: Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

* With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions—In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, statute required active ASRS members to contribute at the actuarially determined rate of 11.64 percent of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.18 percent of the active members' annual covered payroll. In addition, the District was required by statute to contribute at the actuarially determined rate of 10.41 percent of annual covered payroll of retired members who worked for the District in positions that an employee who contributes to the ASRS would typically fill. The District's contributions to the pension plan for the year ended June 30, 2019, were $2,919,511.

Liability—At June 30, 2019, the District reported the following asset and liabilities for its proportionate share of the ASRS' net pension asset or liability.

ASRS	Net pension liability
Pension	$33,060,133

The net pension liability was measured as of June 30, 2018. The total liability used to calculate the net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The total liability as of June 30, 2018, reflects changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3-6.75 percent to 2.7-7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

The District's proportion of the net liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2018. The District's proportion measured as of June 30, 2018, and the change from its proportions measured as of June 30, 2017, were:

ASRS	Proportion June 30, 2018	Decrease June 30, 2017
Pension	0.23705%	0.00264

Expense—For the year ended June 30, 2019, the District recognized the following pension expense.

ASRS	Pension expense
Pension	$(538,656)

Deferred outflows/inflows of resources—At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 910,780	$ 182,255
Changes of assumptions or other inputs	874,832	2,931,235
Net difference between projected and actual earnings on plan investments		795,018
Changes in proportion and differences between district contributions and proportionate share of contributions	274,174	1,223,776
District contributions subsequent to the measurement date	2,919,511	
Total	$4,979,297	$5,132,284

The amounts reported as deferred outflows of resources related to ASRS pensions resulting from district contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized as expenses as follows:

Year ending June 30	
2020	$ (628,552)
2021	(881,427)
2022	(1,205,984)
2023	(356,535)

Actuarial assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2% for pensions
Inflation	2.3%
Permanent benefit increase	Included for pensions
Mortality rates	2017 SRA Scale U-MP for pensions

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected geometric real rate of return
Equity	50%	5.50%
Fixed income	30%	3.83%
Real estate	20%	5.85%
Total	100%	

Discount rate—At June 30, 2018, the discount rate used to measure the ASRS total pension liability was 7.5 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on these assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the ASRS net pension liability to changes in the discount rate—The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current discount rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	$47,127,980	$33,060,133	$21,306,674

Plan fiduciary net position—Detailed information about the plan's fiduciary net position is available in the separately issued ASRS financial report.

Note 7 - Operating expenses

The District's operating expenses are presented by functional classification in the statement of revenues, expenses, and changes in net position – primary government. The operating expenses can also be classified into the follows:

Personal services	$36,415,889
Contract services	5,750,666
Supplies	2,706,665
Communications/utilities	2,369,503
Scholarships	7,030,731
Depreciation	4,505,252
Other	4,433,107
Total	$63,211,813

The District uses credit cards to pay certain vendors for goods and services. The District received $38,156 in rebates resulting from credit card payments for the year ended June 30, 2019.

Note 8 – Subsequent events

The District has undertaken significant transformation efforts in recent years. The District finds itself with the need to continue the institutionalization of this transformation by driving change into the Enterprise Applications solutions to support the mission, vision and desired student and employee experiences. Current needs far outpace the available staff and local recruitment for the unique skillset is difficult and not cost effective. Therefore, after year end, the District entered into a five-year agreement with CampusWorks Inc. The total amount of the District's commitment is $4,240,284 ($940,092 for the first 12-month period).

Also, after year end, the District entered into agreements with De Lage Landen Public Finance LLC and Dell Financial Services L.L.C. to enhance the District's technological infrastructure. The amount of the District's commitment to the financing organizations is $1,257,841. The enhancements purchased from the organizations consist of a fiber optic backbone upgrade/EMC VxRail and new instructional terminals, respectively.

Note 9 – Discretely presented component unit

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

Summary of significant accounting policies

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

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

Basis of presentation—The financial statements of the Foundation have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing not-for-profit accounting and financial reporting principles. The Foundation is required to report information regarding its financial position and activities according to two classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified as follows:

Net assets without donor restrictions are not subject to donor-imposed stipulations. The Governing Board has designated, from net assets without donor restrictions, net assets for the purpose of matching donated contributions for the Dreams to Reality Program. These assets are held in investments in a board designated endowment fund.

Net assets with donor restrictions are subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the Foundation and/or the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds must be maintained in perpetuity.

Donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Use of estimates—In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and cash equivalents—For purposes of the Statement of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments—The Foundation reports investments at fair value. Net investment income return is reported in the Statement of Activities and consists of realized and unrealized capital gains and losses, less investment expense.

Concentration of credit and market risk—Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Foundation maintains its cash and cash equivalents in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. There was no uninsured cash at year end. To minimize risk, cash accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution. The Foundation's investments do not represent significant concentrations of market risk inasmuch as the Foundation's investment portfolio is adequately diversified among issuers.

Property and equipment—All acquisitions of property and equipment with a cost in excess of $5,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets; one asset with a useful life of 5 years. Depreciation expense for the current fiscal year was $342.

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

Compensated absences—Employees are entitled to personal time off (PTO), depending on job classification, length of service, and other factors. It is the Foundation's policy to recognize the cost of compensated absence when leave is earned by employees.

In-kind contributions—Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Foundation reclassifies net assets with donor restrictions to net assets without restrictions at that time.

Functional allocation of expenses—The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Professional services	Time and effort
Rent	Time and effort
Travel and meetings	Time and effort
Depreciation	Time and effort

Advertising—The Foundation uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the current fiscal year, advertising costs totaled $109.

Income tax status—The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State of Arizona tax provisions. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Foundation's Form 990, *Return of Organization Exempt from Income Taxes* is generally subject to examination by the Internal Revenue Service for three years after the date filed.

New Accounting Pronouncement—During the fiscal year, the Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Date of management's review—In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through November 18, 2019, which is the date the financial statements were available to be issued.

Liquidity and availability

The following represents the Foundation's financial assets at fiscal year-end:

Financial assets at year-end:	
Cash and cash equivalents	$ 250,548
Investments	6,973,188
Total financial assets	7,223,736
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(5,498,537)
Quasi-endowment established by the Board	(392,240)
Financial assets available to meet general expenditures over the next twelve months	$ 1,332,959

The Foundation does not have a formal policy regarding operating reserves, however the Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Although the Foundation does not intend to spend from its quasi-endowment, amounts could be made available if necessary. The Foundation did not have any lines of credit during the current fiscal year.

Investments and fair value measurements

Fair value is defined as the price that the Foundation would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounting standards establish a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques. Inputs refer broadly to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Observable inputs are those that reflect the assumptions that market participants would use in pricing the asset and are based on market data obtained from independent sources. Unobservable inputs reflect the Foundation's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three- tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 assets use quoted prices in active markets for identical investments.

Level 2 assets use quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability.

Level 3 assets use unobservable inputs for the asset or liability.

The level of fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair Values Measured on Recurring Basis

Fair values of assets measured on a recurring basis at year end are as follows:

	Hierarchy level	Fair value
Investments		
Money market funds	Level 1	$ 180,438
Fixed income investments	Level 1	2,723,692
Equities	Level 1	4,249,496
Total assets		$7,153,626

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value.

Investments—Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

The Foundation recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels during the current fiscal year.

Endowments

The Foundation's endowment consists of approximately 80 individual funds established for student scholarships. Its endowment includes both donor-restricted funds and funds designated by the Board to meet matching requirements. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law—The Board of Directors of the Foundation has interpreted the State of Arizona's version of the 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 retains in perpetuity (a) the original value of initial and subsequent gifts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditures by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund
b. The purpose of the donor-restricted endowment fund
c. General economic conditions
d. The possible effect of inflation and deflation
e. The expected total return from income and the appreciation of investments
f. Other resources of the Foundation
g. The investment policies of the Foundation

Endowment Net Asset Composition by Type of Fund as of year-end:

	Without donor restriction	With donor restriction	Total
Donor-restricted funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		$1,820,438	$1,820,438
Accumulate investment gains and contributions		1,685,243	1,685,243
Title V Match	$392,240		392,240
Total funds	$392,240	$3,505,681	$3,897,921

Investment return objectives, risk parameters and strategies—The Foundation has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding for scholarships supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of three to four percent, while growing the funds if possible.

Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately six to eight percent annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending policy—The Foundation has a policy of appropriating for distribution each year between three and four percent of its endowment funds' average fair value, provided that the value of the particular endowment is at least 105 percent of its principal. Any income in excess of annual spending is to be reinvested in the endowment account. Money reinvested in the endowment account shall not be considered principal of that account unless so designated by the Board or as stipulated by the donor. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to be consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in Endowment Net Assets as of year-end:

	Without donor restriction	With donor restriction	Total
Endowment net assets, beginning of year	$432,321	$3,457,147	$3,889,468
Contributions		180,214	180,214
Reclassification	(40,081)	(145,556)	(185,637)
Investment return, net		249,577	249,577
Amounts appropriated for expenditure		(235,701)	(235,701)
Endowment net assets, end of year	$392,240	$3,505,681	$3,897,921

Net assets

Net Assets without donor restrictions are as follows:

Designated for Title V match	$ 392,240
Undesignated	1,299,818
Total	$1,692,058

Net assets with donor restrictions were as follows:

Specific purpose	
Endowments	$3,505,681
Title V Dreams to Reality	35,600
Instruction	1,513,780
Passage of Time	
Title V Dreams to Reality	443,476
Total	$5,498,537

Net assets released from donor restrictions are as follows:

Satisfaction of purpose restrictions	
Scholarships	$235,701
Instruction	110,176
Total	$345,877

In-kind contributions

In-kind contributions are comprised of personnel and facility related costs provided by Arizona Western College. The fair value of these contributions was $188,036 for the current fiscal year.

During the current fiscal year the Foundation also received donated equipment valued at $7,575.

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.

Other Required Supplementary Information

Yuma/La Paz Counties Community College District
(Arizona Western College)
Required supplementary information
Schedule of the District's proportionate share of the net pension liability
June 30, 2019

Arizona State Retirement System

	Reporting fiscal year (Measurement date)					
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2010
District's proportion of the net pension liability	0.237050%	0.234410%	0.253700%	0.258180%	0.253189%	Information not available
District's proportionate share of the net pension liability	$33,060,133	$36,516,509	$40,949,729	$40,216,044	$37,463,394	
District's covered payroll	$23,654,893	$23,355,636	$23,105,663	$24,188,420	$22,952,857	
District's proportionate share of the net pension liability as a percentage of its covered payroll	132%	156%	177%	166%	163%	
Plan fiduciary net position as a percentage of the total pension liability	73.40%	69.92%	67.06%	68.35%	69.49%	

Yuma/La Paz Counties Community College District
(Arizona Western College)
Required supplementary information
Schedule of the District's pension contributions
June 30, 2019

Arizona State Retirement System

	Reporting fiscal year						
	2019	2018	2017	2016	2015	2014	2013 through 2010
Statutorily required contribution	$ 2,919,511	$ 2,552,655	$ 2,573,271	$ 2,710,797	$ 2,674,695	$ 2,385,898	Information
District's contributions in relation to the statutorily required contribution	2,919,511	2,552,655	2,573,271	2,710,797	2,674,695	2,385,898	not available
District's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	
District's employee payroll	$ 25,109,014	$ 23,654,893	$ 23,355,636	$ 23,105,663	$ 24,188,420	$ 22,952,827	
District's contributions as a percentage of employee payroll	11.63%	10.79%	11.02%	11.73%	11.06%	10.39%	

SINGLE AUDIT REPORT

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of
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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2019. Our report includes a reference to other auditors who audited the financial statements of the Arizona Western College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. However, the financial statements of the Arizona Western College Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Arizona Western College Foundation.

Internal control over financial reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-01 and 2019-02, that we consider to be significant deficiencies.

Compliance and other matters

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

District response to findings

The District's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The District is responsible for preparing a corrective action plan to address each finding. The District's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

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

Lindsey Perry, CPA, CFE
Auditor General

December 5, 2019

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report on compliance for each major federal program and on internal control over compliance

Members of the Arizona State Legislature

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

Report on compliance for each major federal program

We have audited Yuma/La Paz Counties Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on each major federal program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on internal control over compliance

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

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

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

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

Lindsey Perry, CPA, CFE
Auditor General

December 5, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of auditors' results

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles	**Unmodified**
Internal control over financial reporting	
Material weaknesses identified?	**No**
Significant deficiencies identified?	**Yes**
Noncompliance material to the financial statements noted?	**No**

Federal awards

Internal control over major programs	
Material weaknesses identified?	**No**
Significant deficiencies identified?	**None reported**
Type of auditors' report issued on compliance for major programs:	**Unmodified**
Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?	**No**

Identification of major programs

CFDA number	**Name of federal program or cluster**
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.048	Career and Technical Education—Basic Grants to States

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	No

Other matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with 2 CFR §200.511(b)?	Yes

Financial statement findings

2019-01

Information technology (IT) controls—access, security, and contingency planning

Condition and context—The District's control procedures were not sufficiently designed, documented, and implemented to respond to risks associated with its IT systems and data. The District lacked adequate procedures over the following:

- **Restricting access to its IT systems and data—**Procedures did not consistently help prevent or detect unauthorized or inappropriate access.
- **Securing systems and data—**IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.
- **Updating a contingency plan—**Plan lacked key elements related to restoring operations in the event of a disaster or other system interruption.

Criteria—The District should have effective internal controls to protect its IT systems and help ensure the integrity and accuracy of the data it maintains.

- **Logical and physical access controls—**Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, key systems and data access is monitored and reviewed, and physical access to its system infrastructure is protected.
- **IT security internal control policies and procedures—**Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.
- **Comprehensive, documented, and tested contingency plan—**Provides the preparation necessary to place the plan in operation and helps to ensure business operations continue and systems and data can be recovered in the event of a disaster, system or equipment failure, or other interruption.

Effect—There is an increased risk that the District may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and/or the loss of confidentiality or integrity of systems and data. It also increases the District's risk of not being able to effectively continue daily operations and completely and accurately recover vital IT systems and data in the event of a disaster or system interruption.

Cause—The District focused its efforts on reviewing and approving its IT policies and procedures and did not have sufficient time to fully implement these new policies and procedures prior to the end of the year.

Recommendation—To help ensure the District has effective policies and procedures over its IT systems and data, the District should follow guidance from a credible industry source such as the National Institute of Standards and Technology. To help achieve these control objectives, the District should develop, document, and implement control procedures in each IT control area described below:

Access:

- Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
- Remove terminated employees' access to IT systems and data.
- Review all other account access to ensure it remains appropriate and necessary.

- Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
- Enhance authentication requirements for IT systems.
- Protect IT systems and data with session time-outs after defined period of inactivity.

Security:

- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
- Implement a security incident response plan clearly stating how to report and handle such incidents.
- Improve the information security plan to protect the integrity of the financial reporting systems and data.
- Develop, document, and follow a process for awarding and subsequent monitoring of IT vendor contracts.

Contingency planning:

- Update and implement a contingency plan and ensure it includes all critical elements to restore critical operations, including being prepared to move critical operations to a separate alternative site if necessary.
- Test the contingency plan.
- Train staff responsible for implementing the contingency plan.
- Securely maintain backups of systems and data.

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

This finding is similar to prior-year finding 2018-02.

2019-02

Managing risk

Condition and context—The District did not identify, classify, and inventory sensitive information that might need stronger access and security controls. Also, it did not evaluate and determine the business functions and IT systems that would need to be restored quickly if the District were impacted by disasters or other system interruptions.

Criteria—The District's risk assessment process should include identifying, classifying, and inventorying sensitive information to protect its data and identifying State statutes and federal regulations that could apply and require disclosure to affected parties if sensitive information is compromised. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information and the risk of losing the continuity of business operations in the event of a disaster or system interruption.

Effect—Without correcting these deficiencies, the District's administration and IT management may put the District's operations and IT systems and data at unintended and unnecessary risk.

Cause—The District has not implemented policies and procedures for inventorying and protecting sensitive information and ensuring continuity of operations.

Recommendations—The District should identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. The District should also plan for where to allocate resources and where to implement critical controls. To help ensure it has effective entity-wide policies and procedures to achieve these objectives, the District should follow guidance from a credible industry source, such as the National Institute of Standards and Technology. Responsible administrative officials and management over finance, IT, and other entity functions should be asked for input in the District's process for managing risk. The District should conduct the following as part of its process for managing risk:

- Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the District holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.
- Evaluate and determine the critical organization functions and IT systems that would need to be restored quickly given the potential impact disasters or other IT system interruptions could have on the organization's operations, such as student services, and operations, such as payroll and accounting, and determine how to prioritize and plan for recovery.

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

This finding is similar to prior-year finding 2018-01.

DISTRICT SECTION

YUMA/LA PAZ COUNTIES COMMUNITY COLLEGE DISTRICT (ARIZONA WESTERN COLLEGE)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Period 7/1/2018 - 6/30/2019

Federal Awarding Agency/Program Title	*Federal CFDA Number*	*Name of Funder Pass-Through Entity*	*Identifying Number Assigned By Funder Pass-Through Entity*	*Total Amount Provided to Sub-Recipients*	*Federal Expenditures*	*Federal Program Total*	*Cluster Name*	*Cluster Total*
DEPARTMENT OF AGRICULTURE								
HISPANIC SERVING INSTITUTIONS EDUCATION GRANTS	10.223				$8,116	$8,116	N/A	$0
TOTAL DEPARTMENT OF AGRICULTURE					$8,116			
DEPARTMENT OF THE INTERIOR								
U.S. GEOLOGICAL SURVEY RESEARCH AND DATA COLLECTION	15.808				$2,650	$2,650	N/A	$0
TOTAL DEPARTMENT OF THE INTERIOR					$2,650			
DEPARTMENT OF LABOR								
WIOA ADULT PROGRAM	*17.258*	*YUMA PRIVATE INDUSTRY COUNCIL*	*AH2018-07-01/ADULTFULL*		*$254,854*	*$254,854*	*WIOA CLUSTER*	*$570,820*
WIOA YOUTH ACTIVITIES	*17.259*	*YUMA PRIVATE INDUSTRY COUNCIL*	*AH2018-07-01/OSY/ABE/GED AH2018-07-01/OSY*		*$315,966*	*$315,966*	*WIOA CLUSTER*	*$570,820*
TOTAL DEPARTMENT OF LABOR					$570,820			
SMALL BUSINESS ADMINISTRATION								
SMALL BUSINESS DEVELOPMENT CENTERS	*59.037*	*MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT*	*SBAHQ-18-B0042 SBAHQ-19-B0026*		*$106,727*	*$106,727*	*N/A*	*$0*
TOTAL SMALL BUSINESS ADMINISTRATION					$106,727			
DEPARTMENT OF EDUCATION								
FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS	84.007				$359,085	$359,085	STUDENT FINANCIAL ASSISTANCE CLUSTER	$14,399,530
HIGHER EDUCATION INSTITUTIONAL AID	84.031			$105,610	$827,402	$827,402	N/A	$0
FEDERAL WORK-STUDY PROGRAM	84.033				$303,878	$303,878	STUDENT FINANCIAL ASSISTANCE CLUSTER	$14,399,530
TRIO STUDENT SUPPORT SERVICES	84.042				$373,975	$373,975	TRIO CLUSTER	$987,044
TRIO TALENT SEARCH	84.044				$287,132	$287,132	TRIO CLUSTER	$987,044
TRIO UPWARD BOUND	84.047				$325,937	$325,937	TRIO CLUSTER	$987,044
CAREER AND TECHNICAL EDUCATION-BASIC GRANTS TO STATES	*84.048*	*ARIZONA DEPARTMENT OF EDUCATION*	*19FCTPSG-912101-43B 19FCTDBG-912101-20A 18-FCTDBG-812101-20A 18FCTPSG-812101-43B*		*$457,900*	*$457,900*	*N/A*	*$0*
FEDERAL PELL GRANT PROGRAM	84.063				$13,133,497	$13,133,497	STUDENT FINANCIAL ASSISTANCE CLUSTER	$14,399,530
MIGRANT EDUCATION COLLEGE ASSISTANCE MIGRANT PROGRAM	84.149				$442,276	$442,276	N/A	$0
FEDERAL DIRECT STUDENT LOANS	84.268				$603,070	$603,070	STUDENT FINANCIAL ASSISTANCE CLUSTER	$14,399,530
GAINING EARLY AWARENESS AND READINESS FOR UNDERGRADUATE PROGRAMS	*84.334*	*NORTHERN ARIZONA UNIVERSITY*	*1001848-22*		*$133,880*	*$133,880*	*N/A*	*$0*
TOTAL DEPARTMENT OF EDUCATION				$105,610	$17,248,032			
DEPARTMENT OF HEALTH AND HUMAN SERVICES								
INJURY PREVENTION AND CONTROL RESEARCH AND STATE AND COMMUNITY BASED PROGRAMS	*93.136*	*ARIZONA DEPARTMENT OF HEALTH SERVICES*	*N/A*		*$10,000*	*$10,000*	*N/A*	*$0*
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES					$10,000			
TOTAL EXPENDITURE OF FEDERAL AWARDS				$105,610	$17,946,345			

Please Note:
Italicized award lines indicate pass-through funding

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of the schedule.

YUMA/LA PAZ COUNTIES COMMUNITY COLLEGE DISTRICT (ARIZONA WESTERN COLLEGE)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Period 7/1/2018 - 6/30/2019

Significant Accounting Policies Used in Preparing the SEFA

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

10% De Minimis Cost Rate
The auditee did not use the de minimis cost rate.

Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Yuma/La Paz Counties Community College District for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Catalog of Federal Domestic Assistance (CFDA) numbers
The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2019 Catalog of Federal Domestic Assistance, as well as SAM.Gov and Grants.gov websites.

DISTRICT RESPONSE

ARIZONA WESTERN COLLEGE

December 5, 2019

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

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each finding we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Michelle L Landis, MPA, CPA, CMA
Director of Financial Services and Controller

P.O. Box 929, Yuma, AZ 85366-0929 | 2020 S Ave. 8E, Yuma, AZ 85365-8834 | (928) 317-6000
www.azwestern.edu

Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective action plan
Year ended June 30, 2019

Financial statement findings

2019-01

Information technology (IT) controls—access, security, and contingency planning
Name of contact person: Robert Walker, Vice President of Technology
Anticipated completion date: March 2020

Access

Reviews of Colleague security classes will be conducted in accordance with policies and procedures.

Reviews of user access in Active Directory and Colleague will be conducted in accordance with policies and procedures. Business workflows will be improved to allow for automation of employee access changes, including work study accounts. Action has been taken to disable or limit accounts in Active Directory identified in this finding. Regular audits of all accounts will be conducted to verify adherence to password complexity/expiration requirements.

Reviews of shared accounts in Active Directory will be conducted in accordance with policies and procedures.

Service Account passwords will be updated in accordance with policies and procedures.

Active Directory password groups will be updated in accordance with policies and procedures.

Policies and procedures will be updated as needed to reflect any changes to these processes.

Security

The District will work with Ellucian to identity ways to actively monitor Colleague system activity on the Ellucian-managed systems.

All IT staff will be trained on security incident management to ensure all incidents are reported to ensure proper incident response and analysis in accordance with policies and procedures.

AWC IT will review the results of vulnerability scans on a regular basis and take appropriate steps to remediate in accordance with policies and procedures.

The District will document annual reviews of SOC reports obtained from Ellucian and document a process for responding to vendors when they do not adhere to Service Level Agreements.

Contingency Planning

The DR/BC plan will include an outline for moving or restoring critical services remotely, whether using cloud services or an alternative site.

The DR/BC plan will include details on maintaining essential missions and business functions, full restoration from backup, and incident handing procedures with contact information

The DR/BC plan will include test frequency and documentation, review and approval of test results.

Training will be conducted in concert with the annual tests. Attendance will be recorded using one or more of the following systems: Service Desk, Colleague, or email.

Backup processes will include information about data encryption and what data is included in backups. All Colleague data, including student information and financial records, is currently encrypted.

Policies and procedures will be updated as needed to reflect any changes to these processes.

2019-02

Managing risk
Name of contact person: Robert Walker, Vice President of Technology
Anticipated completion date: March 2020

The District will develop a process to identify and inventory data, including data within Colleague. A committee comprised of IT personnel, data stewards, and other stakeholders will determine the classification system and identify the methods for protecting data. The District will also evaluate where encryption may be necessary.

The District will prioritize critical services, including cloud-based, and document recovery procedures with recovery point objective (RPO) and recovery time objective (RTO) for each. The Document Recovery/Business Continuity (DR/BC) plan and appendices will be updated to include this information.

Policies and procedures will be updated as needed to reflect any changes to these processes.

ARIZONA WESTERN COLLEGE

December 5, 2019

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

Dear Ms. Perry:

We have prepared the accompanying summary schedule of prior audit findings as required by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs. This schedule also includes the status of audit findings reported in the prior audit's summary schedule of prior audit findings that were not corrected.

Sincerely,

Michelle L Landis, MPA, CPA, CMA
Director of Financial Services and Controller

P.O. Box 929, Yuma, AZ 85366-0929 | 2020 S Ave. 8E, Yuma, AZ 85365-8834 | (928) 317-6000
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Yuma/La Paz Counties Community College District
(Arizona Western College)
Summary schedule of prior audit findings
Year ended June 30, 2019

Status of financial statement findings

The District should improve its risk assessment process to include information technology security
Finding number: 2018-01, 2017-01, 2016-01, 2015-04, 2015-03, 2014-04, 2014-03
Status: Partially corrected

As scheduled for Q4 2019 and Q1 2020, the District (has) assembled a Data Governance Committee (DGC) which will develop, document, and begin the process of identifying, classifying, and inventorying all information District-wide. The DGC is comprised of IT personnel, data stewards, and other stakeholders who will determine the classification system and identify the methods for protecting data. This will be followed by a review of all Colleague and SoftDocs roles and associated access rights to ensure compliance with policy. The District will also evaluate where encryption may be necessary. These efforts will have the District fully prepared no later than March 31, 2020, providing a full quarter of compliant operations.

The District should improve access controls over its information technology resources
Finding number: 2018-02, 2017-02, 2016-02, 2015-01, 2014-01, 2013-01, 12-01, 11-01, 10-01
Status: Partially corrected

Several account workflows have been automated to ensure timely changes to account status. IT policies and procedures were updated and we anticipate full adherence to these for FY20. This includes shared account and service account management.

The District should improve its configuration management processes over its information technology resources
Finding number: 2018-02, 2017-03, 2016-03, 2015-02, 2014-02
Status: Fully corrected

The District should improve security over its information technology resources
Finding number: 2018-02, 2017-04, 2016-04, 2015-03, 2014-03
Status: Partially corrected

The District introduced Advanced Threat Analytics for real-time analysis and alerting of user and system activity.

The District will improve its security incident management procedures and work to ensure it is followed for all relevant incidents.

The District uses security awareness training from KnowBe4. Assessment results are recorded for each user. Monthly training is in place in addition to the mandatory annual training.

The District will continue to improve change management procedures with the full implementation of a Change Advisory Board (CAB) in FY20 per the two-year action plan developed in 2018.

The District should improve its contingency planning procedures for its information technology resources
Finding number: 2018-02, 2017-05, 2016-05, 2015-04, 2014-04
Status: Not corrected

The District is committed to improving its Disaster Recovery/Business Continuity plan for FY20 per the two-year action plan developed in 2018. AWC has contracted with CampusWorks to assist in continuity planning, policies and procedures, and information security.

Status of federal award findings and questioned costs

Cluster name: Student Financial Assistance Cluster
CFDA number and program name:
84.007 Federal Supplemental Educational Opportunity Grants
84.033 Federal Work-Study Program
84.063 Federal Pell Grant Program
84.268 Federal Direct Student Loans
Finding number: 2018-101
Status: Fully corrected

Cluster name: Student Financial Assistance Cluster
CFDA Number: 84.007 Federal Supplemental Educational Opportunity Grants
84.033 Federal Work-Study Program
84.063 Federal Pell Grant Program
84.268 Federal Direct Student Loans

Finding number: 2018-102
Status: Fully corrected

ARIZONA
AuditorGeneral
Making a Positive Difference