

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

Year Ended June 30, 2003

Yuma/La Paz Counties Community College District
(Arizona Western College)
Single Audit Reporting Package
Year Ended June 30, 2003

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(1931 - 1992)

Independent Auditor's Report

The Auditor General of the State of Arizona

Members of the Arizona State Legislature

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

We have audited the accompanying basic financial statements of Yuma/La Paz Counties Community College District as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Yuma/La Paz Counties Community College District as of June 30, 2003, and the changes in financial position and cash flows of the District for the year then ended in conformity with U.S. generally accepted accounting principles.

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

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Miller, Allen & Co., P.C.".

November 6, 2003



November 6, 2003

Management's Discussion and Analysis

This discussion and analysis introduces the basic financial statements and provides an overview of the District's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the financial statements, which immediately follow.

Basic Financial Statements:

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

The Statement of Net Assets reflects the financial position of the District at June 30, 2003. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represents institutional equity or ownership in the total assets of the District. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and other changes for the year ended June 30, 2003. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net assets amount – which is shown on The Statement of Net Assets described above.

The Statement of Cash Flows presents the inflows and outflows of cash and cash equivalents for the year ended June 30, 2003. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Assets described above. In addition, this statement reconciles cash flows from operating activities to operating income/loss on the Statement of Revenues, Expenses and Changes in Net Assets described above.

Financial Highlights and Analysis:

Consistent with its mission the District offers educational, career, and lifelong learning opportunities through innovative partnerships which enhance the lives of people in Yuma and La Paz Counties. Major funding sources supporting all functions include property taxes, state

appropriations, and tuition and fees. The District exercises primary and secondary property tax levy authority for generation of funds for operating, capital equipment, and debt retirement purposes.

The District's overall financial position improved in fiscal year 2003. The assets of the District exceeded its liabilities at the close of the fiscal year by \$24,876,605. Included in this amount is \$11,747,759, which may be used to meet the District's ongoing mission of providing learning opportunities throughout the District.

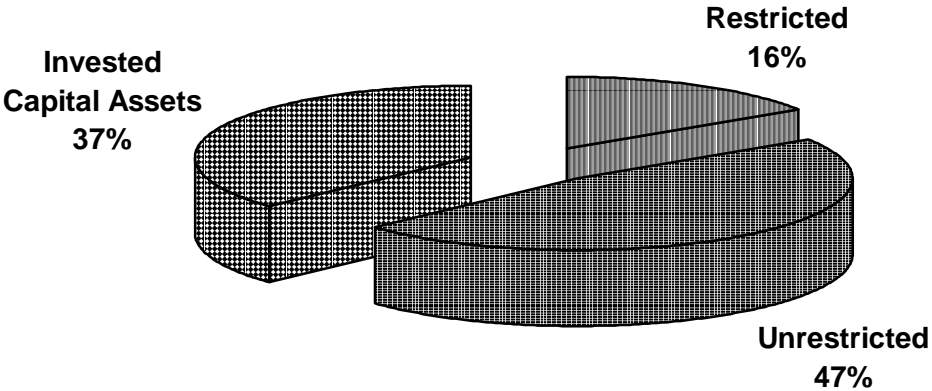
The condensed financial information below highlights the main categories of The Statement of Net Assets. Assets and liabilities are distinguished as to their current or noncurrent nature. Current liabilities are typically those obligations intended for liquidation or payment within the next fiscal year while current assets are those resources that are available for use in meeting the operating needs of the District, including current liabilities. Net assets are divided into three categories reflecting the institutional equity in assets by broad characteristics. In addition to the District's capital assets, the District holds resources that have been restricted by external parties for specific programs or purposes. The remaining net assets are unrestricted but are dedicated to the primary mission of the District.

Condensed Financial Information

Condensed Statement of Net Assets

	2003	2002
Assets:		
Current assets	\$ 20,402,396	\$ 20,261,058
Noncurrent assets, other than capital assets	903,431	936,510
Capital assets, net	21,424,330	20,642,915
Total assets	\$ 42,730,157	\$ 41,840,483
Liabilities:		
Current liabilities	\$ 6,847,612	\$ 6,075,347
Noncurrent liabilities	11,005,940	12,267,149
Total liabilities	\$ 17,853,552	\$ 18,342,496
Net assets:		
Invested in capital assets, net of related debt	\$ 9,192,885	\$ 7,047,915
Restricted net assets	3,935,961	3,662,722
Unrestricted net assets	11,747,759	12,787,350
Total net assets	\$ 24,876,605	\$ 23,497,987

NET ASSETS BY CATEGORY



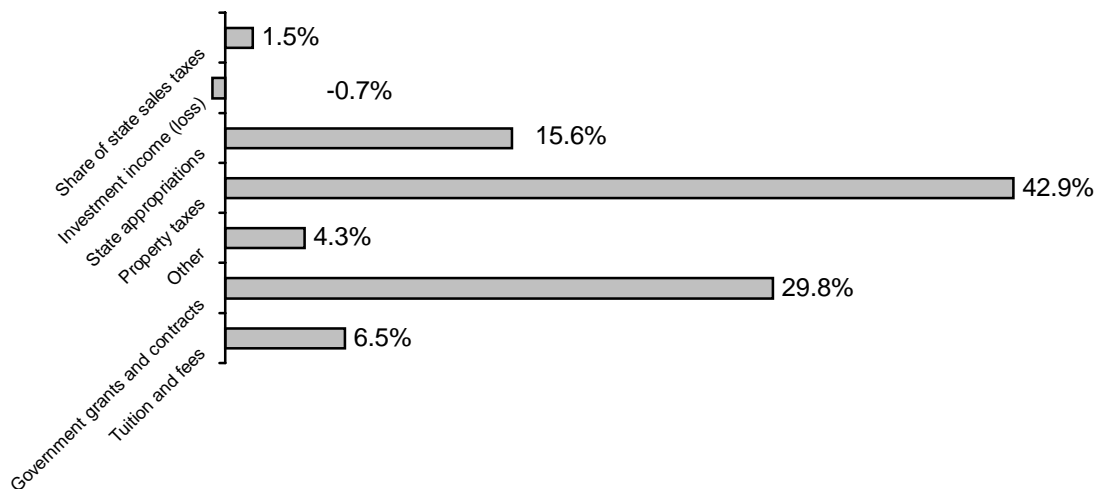
For 2003, current assets are approximately 2.98 times the amount of current liabilities. A combination of reporting changes and use of some unrestricted cash reduced unrestricted net assets by \$1,039,591. However, the District's total net assets increased by \$1,378,618, over the previous fiscal year. The majority of this increase is attributable to the District's reduction in capital debt and additional capital purchases, thus increasing its investment in capital assets.

The condensed financial information below highlights the main categories of the Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues include tuition and fees – net of scholarship discounts and allowances. Generally accepted accounting principles require scholarship discounts and allowances to be recorded as an offset to revenue, instead of as an expense. Depreciation expense is recorded in accordance with the adoption of the economic resources measurement focus. The construction and acquisition of capital assets, although budgeted and tracked as an expenditure in the accounting system, are not reflected as an expense in these statements. Rather, such transactions are reported as an asset – with the systematic allocation of such costs expensed over the useful life of the asset constructed or acquired. The District shows an operating loss, reflective of the fact that two of the three main revenue sources – property taxes and state appropriations – are considered nonoperating revenues. For a description of the difference between operating and nonoperating, please refer to the Summary of Significant Accounting Policies, Note 1 to the basic financial statements.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2003	2002
Revenues		
Operating		
Tuition and fees	\$ 2,258,716	\$ 2,348,563
Government grants and contracts	10,401,285	9,215,585
Other	1,513,962	2,160,441
Nonoperating		
Property taxes	14,947,256	13,777,997
State appropriations	5,435,600	5,433,200
Investment income (loss)	(229,454)	442,131
Share of state sales taxes	521,439	465,523
Total revenues	34,848,804	33,843,440
Expenses		
Operating	33,601,254	32,136,183
Nonoperating	625,332	709,998
Total expenses	34,226,586	32,846,181
Income before other revenues, expenses, gains	622,218	997,259
Capital appropriations	756,400	741,900
Increase in net assets	1,378,618	1,739,159
Total net assets, July 1	23,497,987	21,758,828
Total net assets, June 30	\$ 24,876,605	\$ 23,497,987

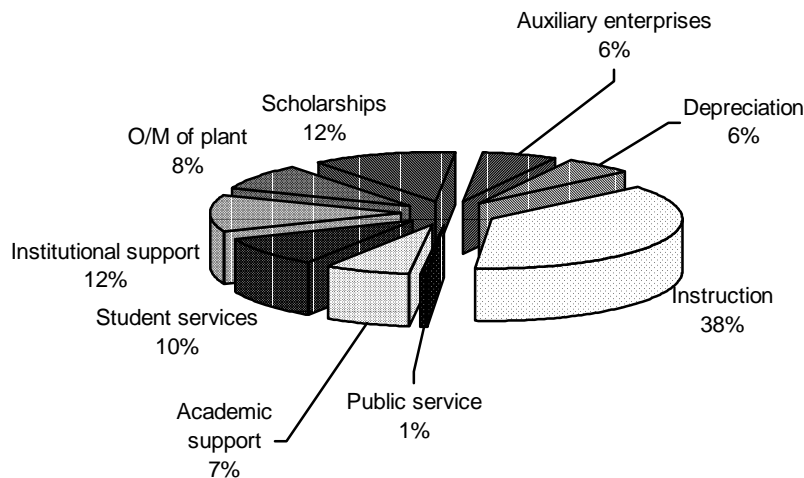
REVENUES BY SOURCE



The decrease in tuition and fees was largely attributable to smaller enrollments in the water treatment program. Government grants and contracts reflect an increase in grants received for the year. Property tax increases were credited to the continued growth in assessed valuation. Investment income (loss) decreased due to the recognition of a \$606,639 loss in the State of Arizona Local Government Investment Pool. The loss is the result of investments in National Century Financial Enterprises, which became insolvent and filed for bankruptcy. The District has joined with the State and other investors in litigation to recover these investments.

	<u>2003</u>	<u>2002</u>
Operating Expenses		
Educational and general:		
Instruction	\$ 12,578,775	\$ 11,817,273
Public service	184,254	195,348
Academic support	2,451,960	2,218,609
Student services	3,256,317	2,996,549
Institutional support	4,069,406	3,785,664
Operation and maintenance of plant	2,828,788	2,773,405
Scholarships	4,161,121	3,407,920
Auxiliary enterprises	2,093,005	2,643,013
Depreciation	<u>1,977,628</u>	<u>2,298,402</u>
Total operating expenses	<u>33,601,254</u>	<u>32,136,183</u>
Nonoperating Expenses		
Interest expense on debt	590,333	700,965
Other nonoperating expenses	<u>34,999</u>	<u>9,033</u>
Total nonoperating expenses	<u>625,332</u>	<u>709,998</u>
Total Expenses	<u>\$ 34,226,586</u>	<u>\$ 32,846,181</u>

OPERATING EXPENSES BY CATEGORY



Operating expenses in 2003 for instruction, academic support, student services, institutional support, and operations and maintenance of plant increased due to salary increases of 3% for all employees, a 7.5% increase in primarily health insurance benefits and increases in grants for technologies, program, and staff enhancement of over 12.8%. The increase in scholarships and the decrease in auxiliary enterprises was the result of reclassifying the expense between the two functions.

Capital Assets and Debt Administration:

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

At June 30, 2003, the District had three debt issues outstanding: one general obligation bond issue for \$11,155,000, which is funded from secondary property taxes; one revenue bond issue for \$465,000, which was funded from gross revenues of operations for various facilities; and one pledged revenue obligation issue for \$300,000 that is funded primarily from tuition and fees.

During the year ended June 30, 2003, the District issued \$ 10,020,000 of general obligation refunding bonds. The advance-refunding replaced higher rate general obligation bonds (Refunding Bonds of 1993) with an average interest rate of 5.13 percent with a refunding rate of 3.28 percent. The proceeds were used to purchase securities that were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. However, during the fiscal year, these trust account assets were used to call and redeem in full the refunded debt. The advance-refunding was undertaken to reduce debt service payments over 9 years by \$ 635,661 and resulted in an economic gain of \$ 578,645. Additional information on the District's long-term debt can be found in Note 5 to the basic financial statements.

Current Factors Having Probable Future Financial Significance:

The State of Arizona continues to experience budget shortfalls that may have an impact on state appropriations to the District in future years. During the 2002/2003 fiscal year, state appropriations to the District was reduced by \$248,400, or approximately 4.58%. Future reductions are expected, but the precise amount is not known at this time. Contingency plans are being developed to prepare for the effect of future funding reductions. The District qualified for equalization aid totaling \$250,800 in 2002/2003 fiscal year and is included in state appropriations.

Proposition 301 was passed by the voters at the general election on November 7, 2000. The proposition increased the state transaction privilege tax rate six-tenths of one per cent for twenty years. This increase was to be used for education from K-12 through higher education. Community Colleges are to use the funds for Workforce Development activities. Fiscal year 2002/2003 was the second year of this funding and the District received \$521,439. It is anticipated that the District will continue to receive at least this amount for the next eighteen years.

Request for Information

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

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Net Assets
 June 30, 2003

Assets

Current assets:

Cash and cash equivalents	\$ 17,931,891
Investments	2,914
Receivables (net of allowances for uncollectibles)	
Property taxes	920,518
Government grants and contracts	906,297
Interest	10,077
Other	340,067
Prepaid items	251,261
Deferred financing costs	39,371
Total current assets	20,402,396

Noncurrent assets:

Restricted assets:

Cash and cash equivalents held by trustees	621,956
Property taxes receivable	123,898
Student loans receivable (net of allowances)	30,469
Deferred financing costs	127,108
Capital assets, not being depreciated	618,283
Capital assets, being depreciated, net	20,806,047
Total noncurrent assets	22,327,761
Total assets	42,730,157

Liabilities

Current liabilities:

Accounts payable	590,779
Accrued payroll and employee benefits	1,111,241
Interest payable	165,160
Deposits held in custody for others	2,964,709
Deferred revenues	147,138
Current portion of compensated absences payable	38,585
Current portion of long-term debt	1,830,000
Total current liabilities	6,847,612

Noncurrent liabilities:

Compensated absences payable	604,495
Long-term debt	10,401,445
Total noncurrent liabilities	11,005,940
Total liabilities	17,853,552

Net Assets

Invested in capital assets, net of related debt	9,192,885
Restricted:	
Nonexpendable:	
Student loans	99,541
Expendable:	
Grants and contracts	926,401
Debt service	1,822,373
Capital projects	1,087,646
Unrestricted	11,747,759
Total net assets	\$ 24,876,605

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Revenues, Expenses, and Changes in Net Assets
 Year Ended June, 2003

Operating revenues:	
Government grants and contracts	\$ 10,140,202
Private grants and contracts	261,083
Pledged for revenue bonds and other obligations:	
Tuition and fees (net of scholarship allowances of \$2,510,654)	2,258,716
Bookstore income	141,201
Food service income	495,889
Dormitory rentals and fees	403,817
Other	473,055
Total operating revenues	14,173,963
Operating expenses:	
Educational and general:	
Instruction	12,578,775
Public service	184,254
Academic support	2,451,960
Student services	3,256,317
Institutional support	4,069,406
Operation and maintenance of plant	2,828,788
Scholarships	4,161,121
Auxiliary enterprises	2,093,006
Depreciation	1,977,627
Total operating expenses	33,601,254
Operating loss	(19,427,291)
Nonoperating revenues (expenses):	
Property taxes	14,947,256
State appropriations	5,435,600
Share of state sales taxes	521,439
Investment income (loss)	(229,454)
Interest expense on debt	(590,333)
Other nonoperating expenses	(34,999)
Total nonoperating revenues (expenses)	20,049,509
Income before other revenues, expenses, gains, or losses	622,218
Capital appropriations	756,400
Increase in net assets	1,378,618
Total net assets, July 1, 2002	23,497,987
Total net assets, June 30, 2003	\$ 24,876,605

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Cash Flows
 Year Ended June 30, 2003

Cash flows from operating activities:	
Tuition and fees	\$ 4,940,496
Grants and contracts	10,033,415
Bookstore receipts	167,197
Food services receipts	496,357
Dormitory rentals and fees	411,105
Collection of loans to students	5,288
Other receipts	889,337
Payments to suppliers and providers of goods and services	(14,623,339)
Payments to employees	(19,591,913)
Net cash used for operating activities	<u>(17,272,057)</u>
Cash flows from noncapital financing activities:	
Property taxes	14,936,527
State appropriations	5,435,600
Share of state sales taxes	521,439
Other nonoperating expenses	(34,999)
Deposits held in custody for others received	18,407,555
Deposits held in custody for others disbursed	(17,357,482)
Net cash provided by noncapital financing activities	<u>21,908,640</u>
Cash flows from capital and related financing activities:	
Capital appropriations	756,400
Principal paid on capital debt	(1,675,000)
Interest paid on capital debt	(630,689)
Purchases of capital assets	(2,759,043)
Net cash used for capital and related financing activities	<u>(4,308,332)</u>
Cash flows from investing activities:	
Investment income (loss)	(222,159)
Net cash used for investing activities	<u>(222,159)</u>
Net increase in cash and cash equivalents	106,092
Cash and cash equivalents, July 1, 2002	<u>18,447,755</u>
Cash and cash equivalents, June 30, 2003	<u>\$ 18,553,847</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Cash Flows
 Year Ended June 30, 2003

**Reconciliation of operating loss to net cash
 used for operating activities:**

Operating loss	\$(19,427,291)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,977,627
Changes in assets and liabilities:	
Increase in:	
Government grants and contracts receivable	(106,787)
Prepaid items	(83,797)
Accrued payroll and employee benefits	194,429
Deferred revenues	7,034
Compensated absences	59,768
Decrease in:	
Student loans receivable	5,288
Other receivables	353,044
Accounts payable	(251,372)
Net cash used for operating activities	<u><u>\$(17,272,057)</u></u>

Noncash investing, capital and noncapital financing activities:

During the year, the District issued advance refunding bonds. From this issuance, \$10,296,349 was directly deposited into an escrow account to pay future debt service on the refunded bonds, and \$176,322 was withheld to pay fees and insurance.

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2003

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity.

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

B. Basis of Presentation and Accounting

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

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

A statement of revenues, expenses, and changes in net assets provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions. Generally, revenues generated by the District for instruction and public service are considered to be operating revenues. Other revenues used for instruction and public service, such as property taxes and state

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2003

appropriations, are not generated from operations and are considered to be nonoperating revenues.

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

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

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

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

The District follows FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

C. Cash and Investments

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

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

D. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

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

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2003

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

E. Compensated Absences

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

F. Investment Income

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

G. Scholarship Allowances

A scholarship allowance is the difference between the stated charge for goods and services provided by the District and the amount that is paid by the student or third parties making payments on behalf of the student. Accordingly, some types of student financial aid such as Pell grants and scholarships awarded by the District are considered to be scholarship allowances. These allowances are netted against tuition and fees revenues in the statement of revenues, expenses, and changes in net assets.

Note 2 - Deposits and Investments

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

Deposits - At June 30, 2003, cash on hand was \$2,000, the carrying amount of the District's deposits was \$1,105,017 and the bank balance was \$2,806,597. Of the bank balance, \$203,111 was covered by federal depository insurance and \$2,603,486 was

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2003

covered by collateral held by the pledging financial institution's trust department or agent in the District's name in book entry form.

Investments - The District's investments at June 30, 2003 consisted of the following:

	Fair Value
Common stock	\$ 2,914
Money market mutual funds	621,956
State Treasurer's investment pool	9,347,984
Cash and investments held by the County Treasurer	7,476,890
Total	\$ 17,449,744

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

Cash and cash equivalents held by trustee are restricted as to usage and held in bond trustee funds. The trustee acquires and holds the monies in money market mutual funds. These money market mutual funds are uninsured and unregistered.

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

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

Cash and investments:		Statement of Net Assets:	
Cash on hand	\$ 2,000	Cash and cash equivalents	\$17,931,891
Carrying amount of deposits	1,105,017	Current investments	2,914
Reported amount of investments	17,449,744	Restricted assets:	
		Cash and cash equivalents held by trustees	621,956
Total	\$18,556,761	Total	\$18,556,761

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2003

Note 3 - Student Loan Receivables

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

<u>Receivables</u>	<u>Gross Receivable</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivable</u>
Student loans:			
Noncurrent	\$ 131,643	\$ (101,174)	\$ 30,469
Total	<u>\$ 131,643</u>	<u>\$ (101,174)</u>	<u>\$ 30,469</u>

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

	<u>Balance July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Capital assets not being depreciated:				
Land	\$ 543,607			\$ 543,607
Construction in progress, (estimated cost to complete \$249,529)	508,168	\$ 69,726	\$ 503,218	74,676
Total capital assets not being depreciated	<u>1,051,775</u>	<u>69,726</u>	<u>503,218</u>	<u>618,283</u>
Capital assets being depreciated:				
Buildings	31,436,109	1,622,516		33,058,625
Equipment	4,896,118	863,684		5,759,802
Other improvements	8,586,297	626,997		9,213,294
Library books	1,464,763	79,337		1,544,100
Total capital assets being depreciated	<u>46,383,287</u>	<u>3,192,534</u>		<u>49,575,821</u>
Less accumulated depreciation for:				
Buildings	15,768,916	1,020,848		16,789,764
Equipment	4,254,884	318,646		4,573,530
Other improvements	5,778,800	546,153		6,324,953
Library books	989,547	91,980		1,081,527
Total accumulated depreciation	<u>26,792,147</u>	<u>1,977,627</u>		<u>28,769,774</u>
Total capital assets being depreciated, net	<u>19,591,140</u>	<u>1,214,907</u>		<u>20,806,047</u>
Capital assets, net	<u>\$ 20,642,915</u>	<u>\$ 1,284,633</u>	<u>\$ 503,218</u>	<u>\$ 21,424,330</u>

Note 5 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2003:

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2003

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due within one year
Compensated absences payable	\$583,312	\$599,848	\$540,080	\$643,080	\$38,585
Bonds payable:					
Revenue bonds	\$ 605,000		\$ 140,000	\$ 465,000	\$ 45,000
General obligation bonds	12,405,000	\$ 9,845,000	11,095,000	11,155,000	1,310,000
Certificates of supplemental interest		175,000		175,000	175,000
Plus deferred amount for issuance premiums	-	452,671	25,298	427,373	-
Less deferred amount on refunding	-	(308,159)	(17,231)	(290,928)	-
Pledged revenue obligations	585,000		285,000	300,000	300,000
Total long-term debt	<u>\$13,595,000</u>	<u>\$10,164,512</u>	<u>\$11,528,067</u>	<u>\$12,231,445</u>	<u>\$1,830,000</u>

Revenue Bonds Payable – The District’s revenue bonds of 1971 were issued to provide monies to acquire, construct, equip, and furnish dormitories, a college union, classroom facilities, and appurtenant facilities. The bonds are payable solely from special sinking funds that are funded by stipulated amounts of gross revenues from the operations of various facilities. The issue is generally callable and interest is payable semiannually. In accordance with the bond indenture, the required debt service reserve fund has been established and all requirements as of June 30, 2003, have been met.

Revenue bonds outstanding at June 30, 2003, were as follows:

Description	Original Amount	Interest Rates	Maturities	Outstanding Principal
Series A of 1971	\$ 1,700,000	6.9 – 7%	7/1/03-10	\$ 465,000
			Total	<u>\$ 465,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest
2004	\$ 45,000	\$ 30,975
2005	50,000	27,650
2006	50,000	24,150
2007	55,000	20,475
2008	60,000	16,450
2009-2011	205,000	21,875
Total	<u>\$ 465,000</u>	<u>\$ 141,575</u>

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2003

General Obligation Bonds Payable – General obligation bonds payable at June 30, 2003, consisted of the outstanding general obligation bonds presented below. The bonds are generally callable with interest payable semiannually.

Principal and interest on the bonds are payable from an ad valorem tax levied against all the taxable property in the District. The bonds issued are payable from such a tax without limit as to rate or amount.

General obligation bonds outstanding at June 30, 2003, were as follows:

Description	Original Amount	Interest Rates	Maturities	Outstanding Principal
General obligation - series of 1993	\$16,355,000	4.875%	7/1/03	\$ 1,310,000
General obligation refunding bonds - series 2003	9,845,000	2.25 – 4.25%	7/1/04 – 10	9,845,000
	<u>\$26,200,000</u>			<u>\$11,155,000</u>

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

Year ending June 30,	Principal	Interest
2004	\$ 1,310,000	\$ 307,066
2005	1,465,000	308,188
2006	1,515,000	267,275
2007	1,550,000	230,900
2008	1,590,000	181,663
2009-2010	3,725,000	168,944
Total	<u>\$ 11,155,000</u>	<u>\$ 1,464,036</u>

During the year ended June 30, 2003, the District issued \$10,020,000 in general obligation bonds and certificates of ownership of supplemental interest, with an average interest rate of 3.28 percent, to partially advance-refund older, higher-rate issues, with an average interest rate of 5.13 percent. The District realized net proceeds of \$10,296,349, after payment of \$176,322 in underwriting fees, insurance, and other issuance costs. These proceeds were used to purchase securities that were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased and related liabilities are not included in the District's financial statements. Details of the refunding transactions are as follows:

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2003

Amount of refunding bonds and certificates of supplemental interest issued	\$ 10,020,000
Amount of bonds refunded	9,845,000
Reduction in debt service payments	635,661
Economic gain	578,645

Pledged Revenue Obligations – The District pledged revenue obligations of 1998 were issued to partially fund the acquisition, construction and equipping of an academic complex. The obligations are payable from a pledge of, and secured by a lien on, all tuition, fees, rentals and other charges from students, faculty and others. The obligations are noncallable with interest payable semiannually. In accordance with the trust agreement, the required debt service reserve fund has been established and all requirements as of June 30, 2003, have been met.

Pledged revenue obligations outstanding at June 30, 2003, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal</u>
Series of 1998	\$ 1,370,000	4.6 – 5.9%	7/1/03	\$ 300,000

Pledged revenue obligation debt service requirements to maturity are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	<u>\$ 300,000</u>	<u>\$ 6,900</u>
Total	<u>\$ 300,000</u>	<u>\$ 6,900</u>

Note 6 - Risk Management

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

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

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2003

members, provides benefits up to \$85,000 per individual per calendar year through a self-funding agreement with its participants and purchases commercial insurance to cover claims in excess of this limit. An independent administrator provides the Consortium with claims and recordkeeping services. The District is responsible for paying the premiums, but may require its employees to contribute a portion of them. The District would be assessed an additional contribution should the Consortium become insolvent. This additional contribution shall not exceed the amount of the District's annual contribution (i.e., premium), and once made, thereby releases the District from further legal obligations of any type. Should the District withdraw from the Consortium, it would then be responsible for its proportional share of claims run-out costs that exceed the Consortium reserves established for the incurred but not reported claims liability. If the Consortium were to terminate, the District would be responsible for its proportional share of any Consortium deficit. The District's proportional share upon termination shall not exceed the amount of the District's annual contributions, and once made, releases the District from all further legal obligations of any type.

Note 7 - Retirement Plan

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

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding policy - The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2003, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2003, 2002, and 2001 were \$670,925, \$636,632, and \$631,854, respectively, which were equal to the required contributions for the year.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2003

Note 8 - Operating Expenses

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

Personal services	\$ 19,846,109
Contract services	2,571,400
Supplies and other services	1,962,282
Communications and utilities	1,140,725
Scholarships	4,161,121
Depreciation	1,977,627
Other	1,941,990
Total	<u>\$ 33,601,254</u>

Supplementary Information

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Hispanic Serving Institutions Education Grants	10.223		\$ 40,558
Distance Learning and Telemedicine Loans and Grants	10.855		<u>325,410</u>
Total U.S. Department of Agriculture			<u>365,968</u>
National Science Foundation			
Geosciences	47.050		<u>48,385</u>
U.S. Department of Housing and Urban Development			
Title IV – College Housing Program	14.Unknown		<u>30,988</u>
U.S. Department of Labor			
Passed through Yuma County			
WIA Cluster:			
WIA Adult Program	17.258	E5702015	560,526
WIA Youth Activities	17.259	AWC99-IIA-C	<u>698,774</u>
Total U.S. Department of Labor			<u>1,259,300</u>
U.S. Small Business Administration			
Passed through Maricopa County Community College District			
Small Business Development Center	59.037	0-7620-0003-08; 3-603001-Z-0003-11	<u>60,321</u>
U.S. Department of Education			
Student Financial Aid Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		239,709
Federal Work-Study Program	84.033		269,121
Federal Perkins Loan Program – Federal Capital Contributions	84.038		139,475
Federal Pell Grant Program	84.063		<u>5,541,290</u>
Total Student Financial Aid Cluster			<u>6,189,595</u>
TRIO Cluster:			
Student Support Services	84.042		324,460
Talent Search	84.044		271,105
Upward Bound	84.047		<u>218,883</u>
Total TRIO Cluster			<u>814,448</u>
Higher Education- Institutional Aid	84.031		392,255
Child Care Access Means Parents in School	84.335		54,266
Bilingual Education – Professional Development	84.195		125,417
Passed through Arizona Department of Education			
Vocational Education – Basic Grants to States	84.048	02FCTDBG-370521-02A 03FCTDBG-370521-02A	234,043
Tech-Prep Education	84.243	02FCTDTP-070521-01A; 03FCTDTP-070521-01A	110,692

(Continued)

See accompanying notes to schedule.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2003
 (Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Passed through Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	None	<u>16,395</u>
Total U.S. Department of Education			<u>7,937,111</u>
 Total Expenditures of Federal Awards			 <u>\$ 9,702,073</u>

See accompanying notes to schedule.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2003

Note 1 - Basis of Presentation

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2003 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number was used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" was used.

Note 3 - Loans Outstanding

The expenditures reported on the Schedule of Expenditures of Federal Awards for certain programs included loan balances outstanding at June 30, 2003, as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Federal Perkins Loan Program – Federal Capital Contributions	84.038	\$131,643

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STEPHEN T. HARRIS, C.P.A.

ROBERT L. MILLER, C.P.A.
(1931 - 1992)

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

The Auditor General of the State of Arizona

Members of the Arizona State Legislature

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

We have audited the basic financial statements of Yuma/La Paz Counties Community College District as of and for the year ended June 30, 2003, and have issued our report thereon dated November 6, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Miller, Allen & Co. P.C.

November 6, 2003

MILLER, ALLEN & CO., P.C.

Certified Public Accountants

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

The Auditor General of the State of Arizona

Members of the Arizona State Legislature

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

Compliance

We have audited the compliance of Yuma/La Paz Counties Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Yuma/La Paz Counties Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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



November 6, 2003

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Material weakness identified in internal control over major programs?	___		<u>X</u>
Reportable condition identified not considered to be a material weakness?	___		<u>X</u> (none reported)
Type of auditor's report issued on compliance for major programs:			unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	___		<u>X</u>

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.855	Distance Learning and Telemedicine Loans and Grants
84.031	Higher Education- Institutional Aid
84.048	Vocational Education – Basic Grants to States
84.195	Bilingual Education – Professional Development
Trio Cluster:	
84.044	Talent Search
84.047	Upward Bound
84.042	Student Support Services
WIA Cluster:	
17.258	WIA Adult Program
17.259	WIA Youth Activities

Dollar threshold used to distinguish between Type A and Type B programs:		\$300,000	
Auditee qualified as low-risk auditee?	___	<u>X</u>	___

Other Matters

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