



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Yuma/La Paz Counties Community College District

(Arizona Western College)

Year Ended June 30, 2013



Debra K. Davenport
Auditor General

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Yuma/La Paz Counties Community College District
(Arizona Western College)
Single Audit Reporting Package
Year Ended June 30, 2013

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

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

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal

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 Yuma/La Paz Counties Community College District as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Supplementary Information—Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Debbie Davenport
Auditor General

December 13, 2013

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Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2013

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, 2013. 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, 2013. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net position. Net position 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 position 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 Position reflects the results of operations and other changes for the year ended June 30, 2013. 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, 2013. 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.

The primary focus of this document is on the results of activity for the fiscal year ended June 30, 2013. 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.

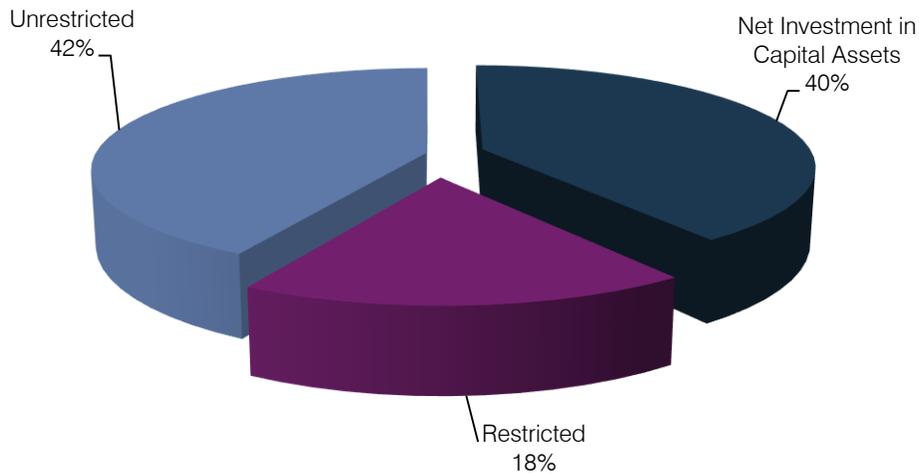
Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Management's Discussion and Analysis
 Year Ended June 30, 2013

Condensed Financial Information

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

	2013	2012
Assets:		
Current assets	\$ 41,349,779	\$ 42,963,415
Noncurrent assets, other than capital assets	646,134	684,653
Capital assets, net	<u>88,123,325</u>	<u>88,137,847</u>
Total assets	<u>130,119,238</u>	<u>131,785,915</u>
Liabilities:		
Other liabilities	4,601,969	4,567,458
Long-term liabilities	<u>66,414,369</u>	<u>68,568,818</u>
Total liabilities	<u>71,016,338</u>	<u>73,136,276</u>
Net Position:		
Net investment in capital assets	23,363,225	20,927,460
Restricted	10,927,866	6,753,461
Unrestricted	<u>24,811,809</u>	<u>30,968,718</u>
Total net position	<u>\$ 59,102,900</u>	<u>\$ 58,649,639</u>

Percent of Net Position for 2013

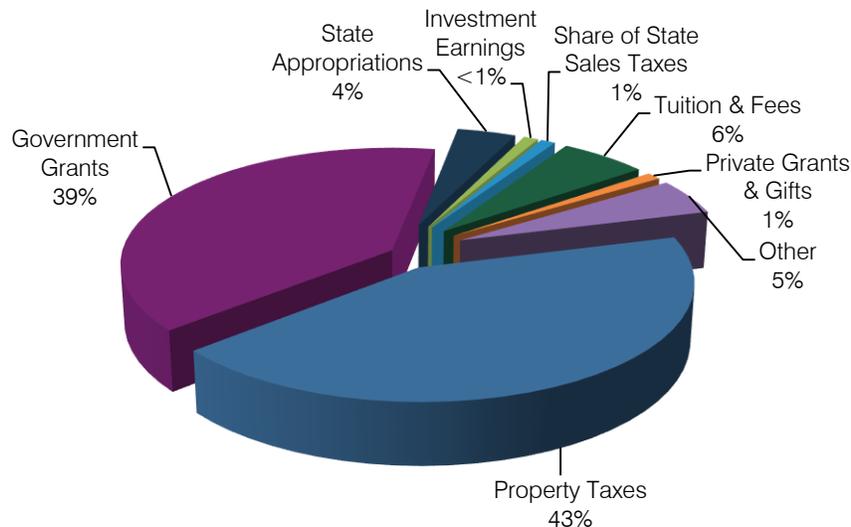


Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2013

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

	2013	2012
Revenues		
Operating		
Tuition and fees (net of scholarship allowances)	\$ 4,129,716	\$ 4,541,672
Other (net of scholarship allowances)	3,545,910	3,503,963
Nonoperating		
Property taxes	28,759,961	28,904,299
State appropriations	2,802,600	4,089,600
Government grants	26,034,103	23,228,208
Share of state sales taxes	664,803	696,089
Private grants and gifts	638,578	615,545
Investment earnings	<u>200,732</u>	<u>177,700</u>
Total revenues	<u>66,776,403</u>	<u>65,757,076</u>
Expenses		
Operating	63,230,653	61,950,541
Nonoperating	<u>3,096,461</u>	<u>3,059,586</u>
Total expenses	<u>66,327,114</u>	<u>65,010,127</u>
Capital grants and gifts	3,972	4,927
Increase in net position	453,261	751,876
Total net position, July 1	<u>58,649,639</u>	<u>57,897,763</u>
Total net position, June 30	<u>\$59,102,900</u>	<u>\$58,649,639</u>

Percent of 2013 Revenues by Source

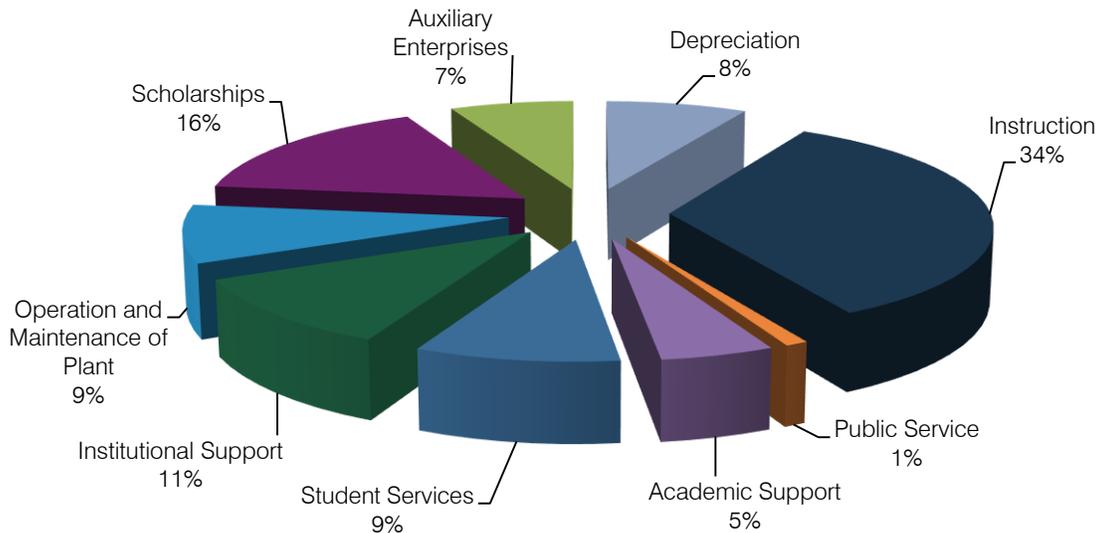


Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Management's Discussion and Analysis
 Year Ended June 30, 2013

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

	2013	2012
Operating expenses		
Educational and general:		
Instruction	\$21,419,676	\$19,357,471
Public service	924,460	882,800
Academic support	3,228,450	3,089,257
Student services	5,797,393	5,428,957
Institutional support	6,836,269	7,187,935
Operation and maintenance of plant	5,718,381	5,686,884
Scholarships	10,179,027	11,515,307
Auxiliary enterprises	4,315,032	4,084,846
Depreciation	<u>4,811,965</u>	<u>4,717,084</u>
Total operating expenses	<u>63,230,653</u>	<u>61,950,541</u>
Nonoperating expenses		
Interest expense on debt	2,961,632	3,057,250
Other nonoperating expenses	<u>134,829</u>	<u>2,336</u>
Total nonoperating expenses	<u>3,096,461</u>	<u>3,059,586</u>
Total expenses	<u>\$66,327,114</u>	<u>\$65,010,127</u>

Percent of 2013 Operating Expenses by Category



Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2013

Financial Highlights and Analysis

Financial Position

The District's overall financial position improved in fiscal year 2013. Total assets decreased \$1.7 million from fiscal year 2012 to fiscal year 2013. This decrease is primarily due to the use of cash for the Wellton Learning Center and the increased depreciation cost.

Total liabilities decreased by \$2.1 million, which is mostly due to the reduction in long-term debt.

Total net position for the District increased by \$453,000 from fiscal year 2012 to fiscal year 2013. This increase is primarily attributable to an increase in net investment in capital assets, an increase in restricted net position and a reduction in unrestricted net position. The changes in restricted and unrestricted net position are due to the Governing Board designating \$5 million of unrestricted net position to restricted for future capital projects.

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 grants. These revenues are further identified as operating or nonoperating revenues.

For fiscal year 2013 the District's total revenues increased by \$1 million from fiscal year 2012. The following revenue sources make up a significant portion of this total increase.

- Tuition and fees decreased by \$412,000 primarily because of a decrease in enrollment and increase in scholarship netting.
- Other operating revenues increased \$42,000 primarily because food service, bookstore, and residence hall increases.
- Government grants increased by \$2.8 million because of the timing of grants, which is primarily reimbursement based.
- Property taxes decreased by \$144,000 primarily because of decreased valuations.
- State appropriations decreased by \$1.3 million because of the funding formula for base and equalization aid.
- Private grants and gifts, investment earnings, and share of state sales taxes netted to an increase of \$15,000.

Total operating expenses increased by \$1.3 million from fiscal year 2012 to fiscal year 2013. This reflects a \$1.3 million decrease in scholarships due to decreased funding in several sponsored scholarship programs, a \$2.2 million increase in instruction and academic support due to salary increases, and a \$230,000 increase in auxiliary enterprises due to salary increases, a \$352,000 decrease in institutional support due to reduction in staff, a \$95,000 increase in depreciation costs and a \$31,000 increase in operation and maintenance of plant due to salary increases, and \$368,000 increase in student services.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2013

Nonoperating expenses in fiscal year 2013 for interest expense on debt decreased slightly because of scheduled retirements of long-term debt.

Capital Assets and Debt Administration

The District's capital assets, net of accumulated depreciation, totaled over \$88.1 million as of June 20, 2013. 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, 2013, the District had two general obligation bond issues totaling approximately \$65 million. Additional information on the District's long-term debt can be found in Note 5 to the District's basic financial statements.

Current Factors Having Probable Future Financial Significance

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 1 percent for 20 years. This increase is to be used for education from K-12 through higher education. Community colleges are to use the funds for workforce development activities. Fiscal year 2013 was the 12th year of this funding, and the District received approximately \$675,000. It is anticipated that the District will continue to receive at least this amount for the next 8 years.

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

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Net Position—Primary Government
 June 30, 2013

	<u>Business-Type Activities</u>
Assets	
Current assets:	
Cash and investments	\$ 36,173,926
Receivables (net of allowances for uncollectibles):	
Property taxes	1,421,243
Government grants and contracts	1,713,945
Interest	71,073
Other	1,865,167
Prepaid items	83,704
Deferred financing costs	20,721
Total current assets	<u>41,349,779</u>
Noncurrent assets:	
Restricted assets:	
Property taxes receivable	300,303
Student loans receivable (net of allowances of \$3,863)	1,992
Deferred financing costs	343,839
Capital assets, not being depreciated	2,513,504
Capital assets, being depreciated, net	<u>85,609,821</u>
Total noncurrent assets	<u>88,769,459</u>
Total assets	<u>130,119,238</u>
Liabilities	
Current liabilities:	
Accounts payable	901,664
Accrued payroll and employee benefits	1,355,616
Interest payable	1,480,819
Deferred revenues	320,835
Deposits held in custody for others	543,035
Current portion of compensated absences payable	94,149
Current portion of long-term debt	<u>2,190,727</u>
Total current liabilities	<u>6,886,845</u>
Noncurrent liabilities:	
Compensated absences payable	1,195,560
Long-term debt	<u>62,933,933</u>
Total noncurrent liabilities	<u>64,129,493</u>
Total liabilities	<u>71,016,338</u>

(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, 2013
 (Continued)

	<u>Business-Type Activities</u>
Net Position	
Net investment in capital assets	\$ 23,363,225
Restricted:	
Nonexpendable:	
Student loans	175,151
Expendable:	
Grants and contracts	2,479,248
Debt service	2,049,590
Capital projects	6,223,877
Unrestricted	<u>24,811,809</u>
Total net position	<u><u>\$ 59,102,900</u></u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Financial Position—Component Unit
 June 30, 2013

	<u>Arizona Western College Foundation</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 733,670
Accounts receivable	2,029
Contributions receivable	140
Current portion of note receivable	<u>9,403</u>
Total current assets	<u>745,242</u>
Investments	3,331,892
Property and equipment, net	797,545
Note receivable, less current portion	<u>10,766</u>
Total assets	<u>\$ 4,885,445</u>
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$ 7,566
Accrued payroll and related liabilities	599
Rental deposits	<u>9,563</u>
Total current liabilities	<u>17,728</u>
Compensated absences payable	<u>8,300</u>
Total liabilities	<u>26,028</u>
Net Assets	
Unrestricted	
Undesignated	1,208,457
Designated	1,141,590
Temporarily restricted	799,409
Permanently restricted	<u>1,709,961</u>
Total net assets	<u>4,859,417</u>
Total liabilities and net assets	<u>\$ 4,885,445</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Statement of Revenues, Expenses, and Changes in Net Position—Primary Government
 Year Ended June 30, 2013

	<u>Business-Type Activities</u>
Operating revenues:	
Tuition and fees (net of scholarship allowances of \$9,710,988)	\$ 4,129,716
Bookstore income	415,879
Food service income (net of scholarship allowances of \$385,104)	1,792,280
Dormitory rentals and fees (net of scholarship allowances of \$236,021)	535,608
Other	<u>802,143</u>
Total operating revenues	<u>7,675,626</u>
Operating expenses:	
Educational and general:	
Instruction	21,419,676
Public service	924,460
Academic support	3,228,450
Student services	5,797,393
Institutional support	6,836,269
Operation and maintenance of plant	5,718,381
Scholarships	10,179,027
Auxiliary enterprises	4,315,032
Depreciation	<u>4,811,965</u>
Total operating expenses	<u>63,230,653</u>
Operating loss	<u>(55,555,027)</u>
Nonoperating revenues (expenses):	
Property taxes	28,759,961
State appropriations	2,802,600
Government grants	26,034,103
Share of state sales taxes	664,803
Private grants and gifts	638,578
Investment earnings	200,732
Interest expense on debt	(2,961,632)
Other nonoperating expenses	<u>(134,829)</u>
Total nonoperating revenues (expenses)	<u>56,004,316</u>
Income before other revenues, expenses, gains, or losses	449,289
Capital grants and gifts	<u>3,972</u>
Increase in net position	453,261
Total net position, July 1, 2012	<u>58,649,639</u>
Total net position, June 30, 2013	<u>\$ 59,102,900</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of Activities—Component Unit
Year Ended June 30, 2013

	Arizona Western College Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Donations	\$ 332,571	\$ 130,108	\$ 118,765	\$ 581,444
Arizona Western College support	160,268			160,268
Rental income	204,401			204,401
Investment income, net of expenses of \$14,452	13,879	15,238		29,117
Unrealized gains (losses)	(286,559)	69,493		(217,066)
Realized gains	10,205	14,084		24,289
Net assets released from restrictions	<u>141,294</u>	<u>(141,294)</u>		
Total revenues and support	<u>576,059</u>	<u>87,629</u>	<u>118,765</u>	<u>782,453</u>
Expenses				
Program services:				
Arizona Western College contributed salaries	161,166			161,166
Scholarships	131,676			131,676
Noncash donations	23,847			23,847
Rental operations	136,520			136,520
Supporting services:				
Management and general	86,385			86,385
Fundraising	<u>22,369</u>			<u>22,369</u>
Total expenses	<u>561,963</u>			<u>561,963</u>
Changes in net assets	14,096	87,629	118,765	220,490
Net assets at beginning of year, as previously reported	<u>2,309,644</u>	<u>711,780</u>	<u>1,617,503</u>	<u>4,638,927</u>
Correction of net asset classifications	<u>26,307</u>		<u>(26,307)</u>	
Net assets, as restated	<u>2,335,951</u>	<u>711,780</u>	<u>1,591,196</u>	<u>4,638,927</u>
Net assets, end of year	<u>\$ 2,350,047</u>	<u>\$ 799,409</u>	<u>\$ 1,709,961</u>	<u>\$ 4,859,417</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of Cash Flows—Primary Government
Year Ended June 30, 2013

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	\$ 3,573,318
Bookstore receipts	415,916
Food services receipts	1,792,280
Dormitory rentals and fees	535,608
Collection of loans to students	1,358
Other receipts	483,843
Payments to suppliers and providers of goods and services	(13,294,481)
Payments for employee wages and benefits	(34,900,186)
Payments to students for scholarships	(10,179,027)
Net cash used for operating activities	(51,571,371)
Cash flows from noncapital financing activities:	
Property taxes	28,824,704
State appropriations	2,802,600
Government grants	25,371,281
Share of state sales taxes	664,803
Private grants and gifts	638,578
Other nonoperating expenses	(1,848)
Federal direct lending receipts	2,117,837
Federal direct lending disbursements	(2,117,837)
Deposits held in custody for others received	3,055,916
Deposits held in custody for others disbursed	(3,071,917)
Net cash provided by noncapital financing activities	58,284,117
Cash flows from capital and related financing activities:	
Principal paid on capital debt	(2,065,000)
Capital grants and gifts	3,972
Interest paid on capital debt	(3,009,441)
Purchases of capital assets	(4,930,424)
Net cash used for capital and related financing activities	(10,000,893)
Cash flows from investing activities:	
Interest received on investments	206,654
Net cash provided by investing activities	206,654
Net decrease in cash and cash equivalents	(3,081,493)
Cash and cash equivalents, July 1, 2012	39,255,419
Cash and cash equivalents, June 30, 2013	\$ 36,173,926

(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, 2013
 (Continued)

	<u>Business-Type Activities</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (55,555,027)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	4,811,965
Changes in assets and liabilities:	
Increase in:	
Other receivables	(858,248)
Accounts payable	10,438
Accrued payroll and employee benefits	102,175
Decrease in:	
Prepaid items	1,105
Student loans receivable, net	1,358
Deferred revenues	(16,415)
Compensated absences payable	(68,722)
Net cash used for operating activities	<u>\$ (51,571,371)</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2013

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District (the primary government) and its discretely presented component unit, the Arizona Western College Foundation (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 only be used by, or for the benefit of, the District or its constituents. Consequently, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board statements for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the District's respective counterpart financial statements. For financial reporting purposes, only the Foundation's statements of financial position and activities are included in the District's financial statements as required by generally accepted accounting principles for public colleges and universities. The Foundation has a June 30 year-end.

During the year ended June 30, 2013, the Foundation distributed \$131,676 to the District for restricted and unrestricted purposes. During the year, the District was a recipient of a Title V Federal grant. The Foundation designated \$1,076,857 to meet matching requirements on an irrevocable endowment in compliance with Title V Federal guidelines for the Dreams to Reality Program. Terms of the endowment require the Foundation to permanently designate contributions as restricted for the purpose of faculty and staff development programs and student scholarships. In addition, the District provided \$161,166 of support to the Foundation during the fiscal year. Complete financial statements for the Foundation can be obtained from the Foundation Office, PO Box 929, Yuma, Arizona, 85364-0929.

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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 assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net position is classified according to external donor restrictions or availability of assets to satisfy the District's obligations. Net investment in capital assets represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net position includes gifts that have been received for endowment purposes and federal contributions for the Federal Perkins Loan Program, the corpus of which cannot be expended. Expendable restricted net 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, are considered to be operating revenues. Other revenues, such as property taxes, state appropriations, and government grants, are not generated from exchange transactions and are considered to be nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

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

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

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

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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 highly liquid investments.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of 1 year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

D. Capital Assets

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$5,000		
Construction in progress	5,000		
Buildings	5,000	Straight-line	20-40 years
Improvements other than buildings	5,000	Straight-line	15 years
Equipment	5,000	Straight-line	5 years
Library books	1	Straight-line	10 years

E. Investment Earnings

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

F. Compensated Absences

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

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

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees. Therefore, a liability for sick leave benefits is not accrued in the financial statements.

G. Scholarship Allowances

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

Note 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) requires the District to deposit special tax levies for the District's maintenance or capital outlay with the County Treasurer. 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 another's property when making investment decisions about those monies. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District's investments.

Deposits—At June 30, 2013, the total cash on hand was \$7,450, the carrying amount of the District's deposits was \$4,613,054, and the bank balance was \$4,983,483. The District does not have a formal policy with respect to custodial credit risk for deposits.

Investments—At June 30, 2013, the District's investments consisted of the following:

Investment Type	Amount
State Treasurer's investment pool 7	\$ 78,448
County Treasurer's investment pool	18,308,579
U.S. Treasury securities	2,872,981
U.S. agency securities	<u>10,293,414</u>
Total	<u>\$31,553,422</u>

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The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's position in the pool approximates the value of that participant's pool shares, and the participant's shares are not identified with specific investments. No comparable oversight is provided for the County Treasurer's investment pool, and that pool's structure does not provide for shares.

Credit risk—The District does not have a formal policy with respect to credit risk. As of June 30, 2013, 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	\$ 78,448
County Treasurer's investment pool	Unrated	Not applicable	18,308,579
U.S. agency securities	Aaa/AA+	Moody's/Standard & Poor's	<u>10,293,414</u>
Total			<u>\$28,680,441</u>

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the District will not be able to recover the value of its investments or collateral securities that are in an outside party's possession. The District does not have a formal policy with respect to custodial credit risk.

Concentration of credit risk—The District does not have a formal policy regarding concentration of credit risk. The District had investments at June 30, 2013, of 5% or more in Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Bank. These investments were 13 percent, 9 percent, and 8.2 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 less than 3 years. At June 30, 2013, the District had the following investments in debt securities:

Investment Type	Amount	Investment Maturities	
		Less than 1 Year	1-3 Years
State Treasurer's investment pool 7	\$ 78,448	\$ 78,448	
County Treasurer's investment pool	18,308,579	18,308,579	
U.S. Treasury securities	2,872,981	1,152,628	\$1,720,353
U.S. agencies securities	<u>10,293,414</u>	<u>3,959,654</u>	<u>6,333,760</u>
Total	<u>\$31,553,422</u>	<u>\$23,499,309</u>	<u>\$8,054,113</u>

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At June 30, 2013, \$850,116 of the investments in U.S. agency securities were considered to be highly sensitive to interest rate changes:

U.S. agency securities with coupon tied to LIBOR plus/minus a fixed basis point amount which resets monthly.	\$650,086
U.S. agency step-up security in which on specified dates, the issuer can call the security. If the security is not called, the interest rate is increased by a specified amount. Prevailing interest rates may increase faster than the increase in coupon interest rate.	<u>200,030</u>
	<u>\$850,116</u>

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	\$ 7,450	Cash and investments	\$36,173,926
Amount of deposits	4,613,054		
Amount of investments	<u>31,553,422</u>		
Total	<u>\$36,173,926</u>	Total	<u>\$36,173,926</u>

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 543,607			\$ 543,607
Construction in progress	<u>349,874</u>	\$ 3,918,454	\$2,298,431	<u>1,969,897</u>
Total capital assets not being depreciated	<u>893,481</u>	<u>3,918,454</u>	<u>2,298,431</u>	<u>2,513,504</u>
Capital assets being depreciated:				
Buildings	103,301,314	2,154,064	119,846	105,335,532
Equipment	11,972,368	913,260	82,593	12,803,035
Improvements other than buildings	20,939,723	144,366		21,084,089
Library books	<u>1,655,218</u>	<u>98,711</u>	<u>113,705</u>	<u>1,640,224</u>
Total capital assets being depreciated	<u>137,868,623</u>	<u>3,310,401</u>	<u>316,144</u>	<u>140,862,880</u>
Less accumulated depreciation for:				
Buildings	28,365,879	2,424,084		30,789,963
Equipment	8,858,533	1,402,160	69,458	10,191,235
Improvements other than buildings	12,180,885	903,524		13,084,409
Library books	<u>1,218,960</u>	<u>82,197</u>	<u>113,705</u>	<u>1,187,452</u>
Total accumulated depreciation	<u>50,624,257</u>	<u>4,811,965</u>	<u>183,163</u>	<u>55,253,059</u>
Total capital assets being depreciated, net	<u>87,244,366</u>	<u>(1,501,564)</u>	<u>132,981</u>	<u>85,609,821</u>
Capital assets, net	<u>\$ 88,137,847</u>	<u>\$2,416,890</u>	<u>\$2,431,412</u>	<u>\$ 88,123,326</u>

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Note 4 - Construction and Other Commitments

The District had major contractual commitments related to various capital projects at June 30, 2013, for the renovation of four buildings and one improvement other than buildings on the main campus, as follows: Business Administration's HVAC, Engineering Technologies Building, Welding Technology 2 Building, Automotive Technology 3 Building, and a new soccer field. At June 30, 2013, the District had spent \$1,969,897 on these projects and had remaining contractual commitments with contractors of \$1,268,688. The renovations to the Business Administration's HVAC and for the new soccer field are being financed by Unexpended Plant Fund resources and the Engineering Technologies, Welding Technology 2, and the Automotive Technology 3 buildings are being financed by federal monies awarded through the U.S. Department of Education.

Note 5 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due within 1 year
Compensated absences payable	\$ 1,358,431	\$ 1,134,224	\$ 1,202,946	\$ 1,289,709	\$ 94,149
Bonds payable:					
General obligation bonds	\$66,825,000		\$2,065,000	\$64,760,000	\$2,170,000
Premiums	385,387		20,727	364,660	20,727
Total long-term debt	<u>\$67,210,387</u>	<u>\$</u>	<u>\$2,085,727</u>	<u>\$65,124,660</u>	<u>\$2,190,727</u>

General Obligation Bonds Payable—The District's bonded debt consists of general obligation bonds that are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. Principal and interest on the bonds are payable from an ad valorem tax levied against all the taxable property in the District. The bonds issued are payable from such a tax without limit as to rate or amount.

General obligation bonds outstanding at June 30, 2013, were as follows:

Description	Original Amount Issued	Maturity Ranges	Interest Rates	Outstanding Principal
General obligation bonds—series 2005	\$20,000,000	7/1/2013-30	3.625-5%	\$16,410,000
General obligation bonds—series 2006	53,850,000	7/1/2013-31	3.75-5%	<u>48,350,000</u>
				<u>\$64,760,000</u>

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

Year ending June 30	Principal	Interest
2014	\$ 2,170,000	2,911,409
2015	2,270,000	2,808,244
2016	2,390,000	2,695,556
2017	2,510,000	2,573,056
2018	2,635,000	2,444,431
2019-23	15,270,000	10,121,579
2024-28	19,505,000	5,996,685
2029-32	<u>18,010,000</u>	<u>1,373,235</u>
Total	<u>\$64,760,000</u>	<u>\$30,924,195</u>

Note 6 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with seven other Arizona community college districts and more than 200 Arizona school districts in the Arizona School Risk Retention Trust, Inc. (Trust), a public-entity risk pool. The Trust insures the District against liabilities arising from general liability; professional liability; property, 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
Professional	Administrative practices: \$150,000/claim, \$300,000 aggregate	None
	Criminal legal defense: \$100,000/claim, \$200,000 aggregate	None
Property	Total insurable value: \$102,562,635	\$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, limited student accident insurance, and athletic accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

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In addition, the District is a member of the Yuma Area Benefit Consortium (the Consortium), which provides life insurance, accidental death and dismemberment, disability, basic or major medical coverage for accidents or sicknesses, as well as dental and vision insurance coverage to its employees through the Consortium. The Consortium, currently composed of four members, provides benefits up to \$100,000 per individual per calendar year through a self-funding agreement with its participants and purchases commercial insurance to cover claims in excess of this limit. An independent administrator provides the Consortium with claims and recordkeeping services. The District is responsible for paying the premiums, but may require its employees to contribute a portion of them. The District would be assessed an additional contribution should the Consortium become insolvent. This additional contribution shall not exceed the amount of the District's annual contribution (i.e., premium), and once made, thereby releases the District from further legal obligations of any type. Should the District withdraw from the Consortium, it would then be responsible for its proportional share of claims run-out costs that exceed the Consortium reserves established for the incurred but not reported claims liability. If the Consortium were to terminate, the District would be responsible for its proportional share of any Consortium deficit. The District's proportional share upon termination shall not exceed the amount of the District's annual contributions, and once made, releases the District from all further legal obligations of any type. No additional contributions to the Consortium have been made in any of the past 3 fiscal years.

Note 7 - Pension and Other Postemployment Benefits

Plan descriptions—The District contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, and Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report is available on its Web site at www.azasrs.gov, by writing the Arizona State Retirement System, 3300 N. Central Ave., P.O. Box 33910, Phoenix, AZ 85067-3910, or by calling (602) 240-2000 or 1-800-621-3778.

Funding policy—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2013 active plan members were each required by statute to contribute at the actuarially determined rate of 11.14 percent (10.9 percent for retirement and 0.24 percent for long-term disability) of the members'

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annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium benefit, and 0.24 percent for long-term disability) of the members' annual covered payroll.

The District's contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

Year ended June 30	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2013	\$2,169,335	\$137,491	\$50,802
2012	2,045,336	130,553	50,631
2011	1,867,996	122,322	51,817

Note 8 - Operating Expenses

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

Personal services	\$34,933,638
Contract services	4,581,927
Supplies and other services	2,991,018
Communications and utilities	2,572,752
Scholarships	10,179,027
Depreciation	4,811,965
Other	<u>3,160,326</u>
Total	<u>\$63,230,653</u>

Note 9 - Discretely Presented Component Unit

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

Summary of Significant Accounting Policies

Nature of Activities—Arizona Western College Foundation (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.

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Basis of Accounting—The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recognized and recorded when incurred.

Basis of Presentation—The financial statements are presented in accordance with U.S. generally accepted accounting principles. Under such principles, the Foundation reports information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets—Unrestricted Net Assets are those currently available at the discretion of the board of directors for use in the Foundation's operations, in accordance with its bylaws. The Foundation reports its revenue and other support as unrestricted if there are no donor-imposed restrictions limiting its use. Designated net assets are assets that the board of directors have designated for the purpose of matching donated contributions for the Dreams to Reality Program. These assets are held in investments in an endowment fund.

Temporarily Restricted Net Assets—Temporarily Restricted Net Assets are those contributions subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets are held for scholarships.

Permanently Restricted Net Assets—Permanently Restricted Net Assets are those resources subject to a donor-imposed restriction that they be maintained permanently by the Foundation. Generally, the donors of these resources permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—The Foundation considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents held for long-term investment purposes are classified as investments. At times, cash and cash equivalent balances may exceed federally-insured amounts.

Investments—Investments in debt and equity securities are carried at fair value based on quoted market prices. Interest and dividend income is recognized when earned. Realized gains and losses are recognized upon the sales of investments. Unrealized gains and losses are recognized based on changes in the fair values of investments.

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Contributions Receivable—Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using a discount rate applicable in the year in which the pledge is received. Amortization of the discount is included in contribution revenue. Conditional pledges are not included as support until such time as the conditions are substantially met. Since contributions receivable are expected to be fully collectible, there is no allowance for doubtful accounts for the years ended June 30, 2013 and 2012.

Property and Equipment—Assets with a unit cost greater than \$500 are capitalized at historical cost, or estimated historical cost if actual historical cost is not available. Assets donated to the Foundation are recorded at their estimated fair value at the time received. Depreciation on building improvements and furniture and equipment is computed using the straight-line method over the estimated useful lives of the assets. Expenses associated with the repair or maintenance of buildings and improvements and furniture and equipment are not capitalized. Estimated useful lives of property and equipment range from 5 years to 31 years.

Tax-Exempt Status—The Foundation qualifies as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code and is not subject to income taxes. The Foundation is not a private foundation and contributions to the Foundation qualify as charitable deductions by the contributor. As of June 30, 2013, no uncertain tax positions have been identified, and accordingly, no provision has been made. As of June 30, 2013, tax years 2010 through 2012 remain subject to examination by major tax jurisdictions.

Fair Value Measurements

Financial accounting standards define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy which prioritizes valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes valuation techniques used to measure fair value into three broad levels:

Level 1 assets use quoted prices in active markets for identical assets that the Foundation has the ability to access (e.g., prices derived from New York Stock Exchange, NASDAQ or Chicago Board of Trade).

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Level 2 assets are valued based on quoted market prices for similar assets within active or inactive markets or information other than quoted market prices observable through market data for substantially the full term of the asset.

Level 3 assets are valued based on inputs other than quoted market prices that reflect assumptions about the asset that market participants would use when performing the valuation based on the best information available in the circumstances.

The following sets forth by level, within the fair value hierarchy, some of the Foundation's assets at fair value as of June 30, 2013:

	Level 1	Level 3	Total
June 30, 2013			
Equities	\$2,040,965		\$2,040,965
U.S. government bonds	341,921		341,921
Corporate bonds	869,006		869,006
Land		<u>\$ 80,000</u>	<u>80,000</u>
Total investments	<u>3,251,892</u>	<u>80,000</u>	<u>3,331,892</u>
Note receivable		<u>20,169</u>	<u>20,169</u>
	<u>\$3,251,892</u>	<u>\$100,169</u>	<u>\$3,352,061</u>

Level 3 assets include auction rate securities, which were previously carried at cost, representative of the estimated redemption value of the securities. However, at June 30, 2013, the auction rate securities have been adjusted to \$0 since there is no active market for the securities. The land classified as level 3 is recorded at its donated value in 2012.

The following table sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the year ended June 30, 2013:

Balances at beginning of year	\$ 480,237
Principal payments of note receivable	(29,989)
Unrealized loss relating to instruments still held at year-end	<u>(350,079)</u>
Balances at end of year	<u>\$ 100,169</u>

Note Receivable

During the year ended June 30, 2012, the Foundation received a donation of a note receivable, collateralized by a deed of trust on residential real estate. The loan is collectible in monthly installments of \$837 including interest at 4% per annum through January 2018.

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Property and Equipment

Property and equipment as of June 30, 2013, consists of the following:

Building and improvements	\$1,113,939
Furniture and equipment	<u>10,763</u>
	1,124,702
Less: accumulated depreciation	<u>581,897</u>
	542,805
Land	<u>254,740</u>
Net property and equipment	<u>\$ 797,545</u>

Concentrations

The Foundation relies on support from Arizona Western College for a significant portion of its operating expenses for services performed by the Foundation. The loss of such support could have a material impact on the operations of the Foundation.

Board-Designated Net Assets and Endowments

Designated Net Assets—During 2013, Arizona Western College Foundation designated \$1,076,857 to meet matching requirements on an irrevocable endowment established by Arizona Western College in compliance with Title V Federal guidelines for the Dreams to Reality Program. Terms of the endowment require the Foundation to permanently designate contributions as restricted for the purpose of faculty and staff development programs and student scholarships.

Of the allowable amount that may be expended annually in compliance with Title V Federal guidelines, 50% shall be returned to principal and reinvested, 45% shall be distributed for the purposes designated by the Foundation, and 5% shall be transferred to the Foundation for administrative costs. No endowment earnings may be expended until October 1, 2016, and only endowment earnings on the donor’s portion may be expended until October 1, 2031. At the end of the 20-year endowment grant term, the percentage of funds distributed may be increased.

The composition of and changes in the board designated endowment assets for the year ended June 30, 2013, were as follows:

Balance, beginning of year	\$ 64,733
Board designations	<u>1,076,857</u>
Balance, end of year	<u>\$1,141,590</u>

Donor Restricted Endowments—The Arizona Western College Foundation stewards donor restricted endowment funds established by donor request for the purpose of student scholarships. Net assets of the endowment funds are classified and reported based on the

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to Financial Statements
June 30, 2013

existence or absence of donor-imposed restrictions. The Board of Directors of the Foundation has interpreted the state's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of the gifts to the permanent endowments, and accumulated earnings that are required to be classified as permanently restricted based on donor stipulations. The remaining portion of a donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$0 as of June 30, 2013.

Return Objectives and Risk Parameters, Investment, and Spending Policies—The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to scholarships supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of the donor-restricted scholarship funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of a moderate allocation model.

The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through equity-based investments (realized and unrealized capital appreciation and dividends) and bonds (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent constraints. Distribution of endowment funds is consistent with donor instructions for scholarship disbursement.

The Foundation's policy for appropriation on donor-restricted endowments is to approve spending as part of the annual budget process approved by the Board of Directors. Individual scholarship decisions are made by the board-appointed Scholarship Committee.

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Notes to Financial Statements
 June 30, 2013

The summary of changes in endowment fund balances for the year ended June 30, 2013, follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance as of June 30, 2012	\$374,175	\$1,617,503	\$1,991,678
Correction to unrestricted net assets		(26,307)	(26,307)
Contributions	21,718	108,255	129,973
Endowment adjustments	(10,000)	10,510	510
Investment return:			
Investment income	28,656		28,656
Investment expenses	(13,947)		(13,947)
Realized gains	13,599		13,599
Unrealized gains	<u>67,039</u>	<u> </u>	<u>67,039</u>
Total investment return	95,347		95,347
Appropriations	<u>(46,299)</u>	<u> </u>	<u>(46,299)</u>
Balance as of June 30, 2013	<u>\$434,941</u>	<u>\$1,709,961</u>	<u>\$2,144,902</u>

Temporarily Restricted

The components of temporarily restricted net assets at June 30, 2013, are as follows:

Endowments	\$434,941
Other investments	363,768
Changing lives pledges	<u>700</u>
Total temporarily restricted net assets	<u>\$799,409</u>

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Supplementary Information

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2013

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Environmental Quality Incentives Program, passed through the Xerces Society for Invertebrate Conservation	10.912	None	<u>\$ 1,282</u>
U.S. Department of the Interior			
Wildland Fire Research and Studies Program	15.232		5,364
U.S. Geological Survey—Research and Data Collection	15.808		<u>8,971</u>
Total U.S. Department of the Interior			<u>14,335</u>
U.S. Department of Justice			
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		<u>83,869</u>
U.S. Department of Labor			
WIA Cluster:			
WIA Cluster, passed through Yuma Private Industry Council, Inc.			
WIA Adult Program	17.258	2012-07-01/AdultFull	200,617
WIA Youth Activities	17.259	A2012-07-01/ISY, A2012-07-01/OSY, A2012-07-01/YOUTHABE	329,618
WIA Dislocated Workers	17.260	2012-07-01/DW, 2012-07-01/DWABE	<u>42,792</u>
Total WIA Cluster			<u>573,027</u>
Total U.S. Department of Labor			<u>573,027</u>
National Science Foundation			
Engineering Grants	47.041		15,220
Education and Human Resources	47.076		<u>141,154</u>
Total National Science Foundation			<u>156,374</u>

(Continued)

See accompanying notes to schedule.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Small Business Administration			
Small Business Development Centers, passed through Maricopa County Community College District	59.037	1-603001-Z-0104, PO#468318, 2-603001-Z-0003 SBAHZ-12-B-0046	\$ <u>146,056</u>
U.S. Department of Education			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		385,874
Federal Work-Study Program	84.033		334,908
Federal Pell Grant Program	84.063		18,114,968
Federal Direct Student Loans	84.268		<u>2,117,837</u>
Total Student Financial Assistance Cluster			<u>20,953,587</u>
Higher Education—Institutional Aid	84.031		3,936,402
TRIO Cluster:			
TRIO—Student Support Services	84.042		348,521
TRIO—Talent Search	84.044		243,431
TRIO—Upward Bound	84.047		<u>297,110</u>
Total TRIO Cluster			<u>889,062</u>
Career and Technical Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	12FCTDBG-270521-01A, 13FCTDBG-370521-01A	124,936
Career and Technical Education—National Programs, passed through Arizona Department of Education	84.051	13SSEPSG-370521-02A	5,458
Migrant Education—College Assistance Migrant Program	84.149		445,353
Tech-Prep Education, passed through the Arizona Department of Education	84.243	11FCTDTP-170521-01A	12,942
Mathematics and Science Partnerships, passed through Parker Unified School District	84.366	None	<u>1,000</u>
Total U.S. Department of Education			<u>26,368,740</u>
Total Expenditures of Federal Awards			<u>\$ 27,343,683</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, 2013

Note 1 - Basis of Presentation

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2013 *Catalog of Federal Domestic Assistance*.

Note 3 - Loans Outstanding

The expenditures reported on the Schedule of Expenditures of Federal Awards for certain programs excluded loan balances outstanding at June 30, 2013, for the Federal Perkins Loan Program—Federal Capital Contributions (CFDA 84.038) of \$5,855.

Note 4 - Subrecipients

From the federal expenditures presented in the Schedule, the District awarded \$132,981 of noncash assistance to Northern Arizona University from the Higher Education—Institutional Aid program (CFDA 84.031).



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

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

We have audited the financial statements of the business-type activities and discretely presented component unit of Yuma/La Paz Counties Community College District as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2013. Our report includes a reference to the other auditors who audited the financial statements of 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 discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance associated with the discretely presented component unit.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2013-01 to be a material weakness.

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*.

Yuma/La Paz Counties Community College District's Response to Finding

Yuma/La Paz County Community College District's response to the finding identified in our audit is presented on page 37. The District's response was not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

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

Debbie Davenport
Auditor General

December 13, 2013



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance for Each Major Federal Program and Report 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) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Yuma/La Paz Counties Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Debbie Davenport
Auditor General

December 13, 2013

Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2013

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unmodified	
		Yes	No
Internal control over financial reporting:			
Material weaknesses identified?	<u> X </u>	<u> — </u>	
Significant deficiency identified?	<u> — </u>	<u> X </u>	(None reported)
Noncompliance material to the financial statements noted?	<u> — </u>	<u> X </u>	

Federal Awards

Internal control over major programs:			
Material weaknesses identified?	<u> — </u>	<u> X </u>	
Significant deficiencies identified?	<u> — </u>	<u> X </u>	(None reported)
Type of auditors' report issued on compliance for major programs:			Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u> — </u>	<u> X </u>	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	WIA Cluster:
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
59.037	Small Business Development Centers
	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

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Financial Statement Finding

2013-01

The District needs to fully implement effective internal controls for granting access to its information systems

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

Condition and context: The District did not adequately restrict or monitor logical access to its information systems during the year. Specifically, for 10 of 20 user accounts tested, auditors determined access authorized on the hard-copy request forms did not match the access allowed in the system. This resulted in employees having elevated access to the system that was not required for or compatible with their job responsibilities. Further, the activity of user accounts with elevated access was not monitored. In addition, auditors noted most of the security classes used to assign access to the system were undefined.

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

Cause: The District established written policies and procedures during the fiscal year to restrict and monitor access and define its security classes, but they had not yet been fully implemented.

Recommendation: The District should fully implement its policies and procedures and define its security classes to help prevent or detect unauthorized use, damage, loss, or modification of information.

This finding is similar to a prior-year finding.

Federal Award Findings and Questioned Costs

None reported.

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December 10, 2013

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

Dear Ms. Davenport:

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

Sincerely,

Carole T. Coleman
Vice President for Finance and Administrative Services

/kmv

Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective Action Plan
Year Ended June 30, 2013

Financial Statement Findings

2013-01

The District needs to fully implement effective internal controls for granting access to its information systems

Corrective Action Plan:

The District shall fully implement its established policies and procedures and define its security classes to help prevent or detect unauthorized use, damage, loss, or modification of information. The District will complete all access changes identified through the verification process by March 31, 2014.