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, 2015

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, 2015

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STATE OF ARIZONA

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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, 2015, 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

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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, 2015, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages i through vi, Schedule of the District's Proportionate Share of the Net Pension Liability on page 30, and Schedule of District Pension Contributions on page 31 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 11, 2015, 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 11, 2015

Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2015

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, 2015. 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, 2015. It shows the various assets owned or controlled, outflows of resources applicable to future reporting periods, related liabilities and other obligations, inflows of resources applicable to future reporting periods, and the various categories of net position. Net position is an accounting concept defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, and as such, represents institutional equity or ownership in the District's total assets. Over time, increases or decreases in net position may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position reflects the results of operations and other changes for the year ended June 30, 2015. 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, 2015. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Position described above. In addition, this statement reconciles cash flows from operating activities to operating income/loss on the Statement of Revenues, Expenses and Changes in Net Position described above.

This document's primary focus is on the results of activity for the fiscal year ended June 30, 2015. 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, 2015

Condensed Financial Information

Net Position—Primary Government
As of June 30

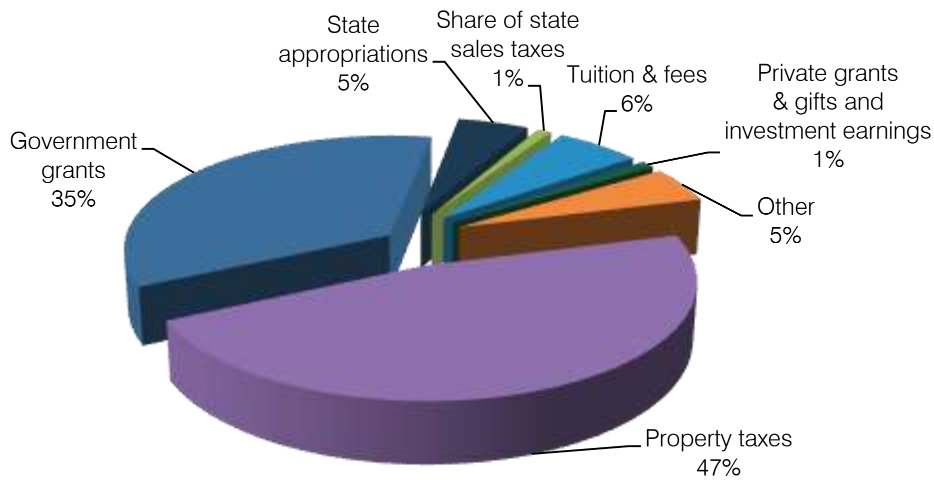
	2015	2014 (Restated) *
Assets:		
Current assets	$ 38,804,277	$ 38,808,339
Noncurrent assets, other than capital assets	331,747	293,695
Capital assets, net	86,038,115	86,659,394
Total assets	125,174,139	125,761,428
Deferred outflows of resources:	8,765,119	5,224,404
Liabilities:		
Other liabilities	5,180,998	4,276,304
Long-term liabilities	103,809,333	108,323,098
Total liabilities	108,990,331	112,599,402
Deferred inflows of resources:	6,551,191	-
Net Position:		
Net investment in capital assets	24,349,042	23,150,333
Restricted	5,626,625	8,948,623
Unrestricted	(11,577,931)	(13,712,526)
Total net position	$ 18,397,736	$ 18,386,430

* 2014 restated for the implementation of GASB Statement No. 68 and GASB Statement No. 71.

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

	2015	2014 (Restated)
Revenues		
Operating		
Tuition and fees (net of scholarship allowances)	$ 3,902,496	$ 3,701,378
Other (net of scholarship allowances)	3,345,202	3,172,394
Nonoperating		
Property taxes	31,572,478	29,351,193
State appropriations	3,609,100	2,754,400
Government grants	23,399,162	24,940,079
Share of state sales taxes	843,061	810,746
Private grants and gifts	629,574	653,654
Investment earnings	175,017	149,197
Capital appropriations	-	276,700
Capital grants and gifts	52,301	50,085
Total revenues	67,528,391	65,859,826
Expenses		
Operating	64,363,655	64,845,494
Nonoperating	3,153,430	3,511,132
Total expenses	67,517,085	68,356,626
Increase/Decrease in net position	11,306	(2,496,800)
Total net position, July 1	18,386,430	59,102,900
Prior period adjustment—Implementation of GASB 68	-	(38,219,670)
Total net position, June 30	$18,397,736	$ 18,386,430

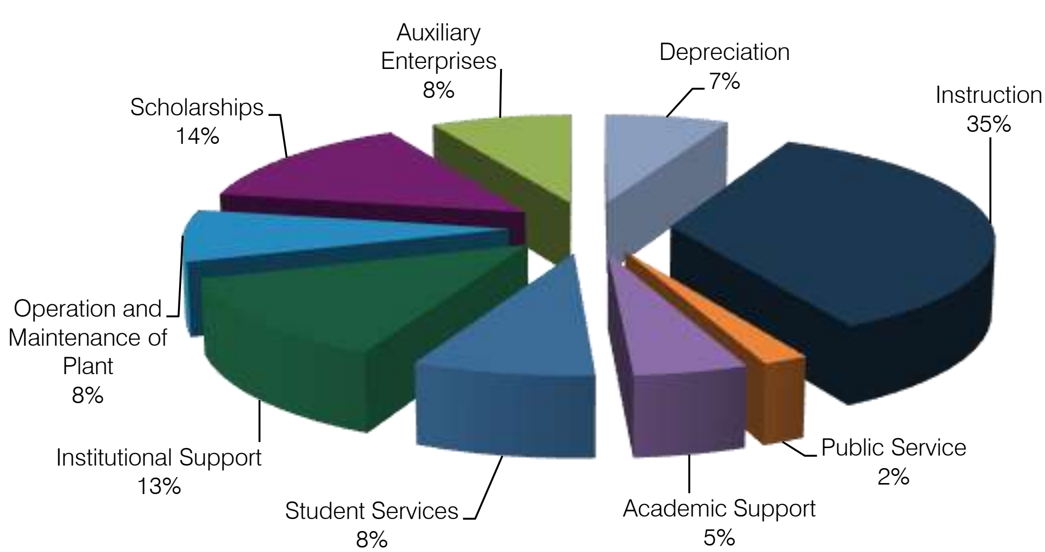
Percent of 2015 Revenues by Source



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

	2015	2014
Operating expenses		
Educational and general:		
Instruction	$22,631,703	$22,467,783
Public service	1,012,786	1,000,163
Academic support	3,160,738	3,213,196
Student services	5,382,598	5,721,212
Institutional support	8,260,170	8,186,067
Operation and maintenance of plant	5,355,143	5,779,270
Scholarships	9,146,579	9,066,854
Auxiliary enterprises	5,019,094	4,768,191
Depreciation	4,394,844	4,642,758
Total operating expenses	64,363,655	64,845,494
Nonoperating expenses		
Interest expense on debt	2,815,665	2,480,675
Other nonoperating expenses	328,615	757,237
Loss on disposal of capital assets	9,150	273,220
Total nonoperating expenses	3,153,430	3,511,132
Total expenses	$67,517,085	$68,356,626

Percent of 2015 Operating Expenses by Category



Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's Discussion and Analysis
Year Ended June 30, 2015

Financial Highlights and Analysis

Financial Position

The District's overall financial position improved in 2015. Total assets and deferred outflows of resources increased by $3 million from fiscal year 2014 to fiscal year 2015. This increase is primarily due to an increase in deferred outflows related to pensions of $3.1 million, an increase in deferred charges on debt refunding for the current year of $400,000 as the District refunded a portion of its general obligation bonds, and a decrease in depreciable assets of $500,000. The increase in deferred pension outflows was caused by the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Additional information on the refunded general obligation bonds during the year can be found in detail in Note 6 to the District's basic financial statements.

Total liabilities and deferred inflows of resources increased by $2.9 million, which is due to an increase in other liabilities for accounts payable and payroll accruals of $900,000, a decrease in long-term liabilities of $4.5 million due to the reduction of long-term debt and net pension liability, and an increase in deferred inflows of $6.5 million due to the implementation of GASB Statement No. 68 and GASB Statement No. 71.

Total net position for the District remains stable from fiscal year 2014 to fiscal year 2015 with a slight increase of $11,000. By net position category there was an increase in net investment in capital assets of $1.2 million, a decrease in restricted assets of $3.3 million, and an increase in unrestricted net position of $2.1 million. The changes in net position are due to several construction projects being completed, a decrease in capital assets, net of accumulated depreciation, and the refunded general obligation funds.

The District's financial position remains strong with adequate resources to meet all current obligations.

Results of Operations

The District has four major revenue sources. These are property taxes, tuition and fees, state appropriations, and government grants. These revenues are further identified as operating or nonoperating revenues.

For fiscal year 2015 the District's total revenues and capital gifts increased by $1.7 million from fiscal year 2014. The following revenue sources make up a significant portion of this total increase:

- Tuition and fees increased by $201,000 primarily because of the in-state and out-of state tuition increases.
- Other operating revenues increased by $173,000 primarily because of increased food service revenues.
- Government grants decreased by $1.5 million because of the timing of grants, which is primarily reimbursement based.
- Property taxes increased by $2.2 million primarily because of increased valuations and increased new construction.
- State appropriations increased by $855,000 because of increased STEM/Workforce programs state aid.

Total operating expenses decreased by $482,000 from fiscal year 2014 to fiscal year 2015. This reflects a $339,000 decrease in student services, $424,000 decrease in operations and maintenance, $53,000 decrease in academic support, and $248,000 decrease in depreciation; and a $164,000 increase in instruction, $74,000 increase in institutional support, $13,000 increase in public service, $251,000 increase in auxiliary enterprises, and an $80,000 increase in scholarships. Many of these decreases are the result of a district-wide effort to reduce utility costs and delays in personnel replacement and more efficient operations.

Nonoperating expenses decreased by $358,000 because of a decrease in the loss on capital assets of $264,000, a decrease in bond issuance costs of $488,000, an increase in interest expense on debt of $335,000, and an increase in other nonoperating expense of $59,000.

Capital Assets and Debt Administration

The District's capital assets, net of accumulated depreciation, totaled over $86 million as of June 30, 2015. 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 4 to the District's basic financial statements.

At June 30, 2015, the District had four general obligation bond issues totaling approximately $59.9 million. During the year ended June 30, 2015, the District refinanced $16.5 million of the 2005 and 2006 Series General Obligation Bonds. The District realized net present value savings of $926,000 after payment of $231,000 in underwriting fees and other issuance costs. Additional information on the District's long-term debt can be found in Note 6 to the basic financial statements.

Current Factors Having Probable Future Financial Significance

Voters passed Proposition 301 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 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 2015 was the 14th year of this funding, and the District received approximately $843,000. It is anticipated that the District will continue to receive at least this amount for the next 6 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, 2015

	Business-Type Activities
Assets	
Current assets:	
Cash and investments	$ 32,897,061
Receivables (net of allowances for uncollectibles):	
Property taxes	1,684,736
Government grants	1,937,116
Interest	19,703
Other	2,088,644
Prepaid items	177,017
Total current assets	38,804,277
Noncurrent assets:	
Restricted assets:	
Property taxes receivable (net of allowances of $10,260)	331,747
Capital assets, not being depreciated	3,358,920
Capital assets, being depreciated, net	82,679,195
Total noncurrent assets	86,369,862
Total assets	125,174,139
Deferred Outflows of Resources	
Deferred outflows related to pensions	5,572,313
Deferred charge on debt refunding	3,192,806
Total deferred outflows of resources	8,765,119
Liabilities	
Current liabilities:	
Accounts payable	1,533,565
Accrued payroll and employee benefits	1,312,211
Interest payable	1,277,827
Unearned revenues	517,464
Deposits held in custody for others	539,931
Current portion of compensated absences payable	72,198
Current portion of long-term debt	3,122,862
Total current liabilities	8,376,058

(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, 2015
(Continued)

	Business-Type Activities
Noncurrent liabilities:	
Compensated absences payable	$ 1,224,000
Long-term debt	61,926,879
Net pension liability	37,463,394
Total noncurrent liabilities	100,614,273
Total liabilities	108,990,331
Deferred Inflows of Resources	
Deferred inflows related to pensions	6,551,191
Net Position	
Net investment in capital assets	24,349,042
Restricted:	
Expendable:	
Grants and contracts	1,608,209
Debt service	1,725,299
Capital projects	2,293,117
Unrestricted (deficit)	(11,577,931)
Total net position	$ 18,397,736

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of Financial Position—Component Unit
June 30, 2015

	Arizona Western College Foundation
Assets	
Current assets	
Cash and cash equivalents	$ 556,520
Accounts receivable	18,339
Current portion of note receivable	828
Total current assets	575,687
Investments	4,326,105
Property and equipment, net	775,848
Note receivable, less current portion	46,658
Total assets	$ 5,724,298
Liabilities and Net Assets	
Current liabilities	
Accounts payable	$ 10,628
Current portion, capital leases	1,117
Rental deposits	10,528
Total current liabilities	22,273
Long-term liabilities	
Capital leases, net of current portion	3,159
Compensated absences payable	830
Total liabilities	26,262
Net Assets	
Unrestricted	
Undesignated	1,060,281
Designated	444,946
Temporarily restricted	2,302,590
Permanently restricted	1,890,219
Total net assets	5,698,036
Total liabilities and net assets	$ 5,724,298

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, 2015

	Business-Type Activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of $10,001,170)	$ 3,902,496
Bookstore income	356,646
Food service income (net of scholarship allowances of $320,206)	2,040,977
Dormitory rentals and fees (net of scholarship allowances of $189,994)	440,965
Other	506,614
Total operating revenues	7,247,698
Operating expenses:	
Educational and general:	
Instruction	22,631,703
Public service	1,012,786
Academic support	3,160,738
Student services	5,382,598
Institutional support	8,260,170
Operation and maintenance of plant	5,355,143
Scholarships	9,146,579
Auxiliary enterprises	5,019,094
Depreciation	4,394,844
Total operating expenses	64,363,655
Operating loss	(57,115,957)
Nonoperating revenues (expenses):	
Property taxes	31,572,478
State appropriations	3,609,100
Government grants	23,399,162
Share of state sales taxes	843,061
Private grants and gifts	629,574
Investment earnings	175,017
Interest expense on debt	(2,815,665)
Other nonoperating expenses	(328,615)
Loss on disposal of capital assets	(9,150)
Total nonoperating revenues (expenses)	57,074,962
Loss before other revenues, expenses, gains, or losses	(40,995)
Capital grants and gifts	52,301
Increase in net position	11,306
Net position as restated, July 1, 2014	18,386,430
Net position, June 30, 2015	$ 18,397,736

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, 2015

	Arizona Western College Foundation			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues and support				
Donations	$ 35,805	$ 174,601	$ 90,919	$ 301,325
Arizona Western College support	118,183			118,183
Rental income	209,426			209,426
Investment income, net of expenses of $49,743	20,576	100,493		121,069
Unrealized gains	75,464	75,734		151,198
Realized gains	1,343	9,177		10,520
Other income	11,568			11,568
Net assets released from restrictions	174,827	(174,827)		
Total revenues and support	647,192	185,178	90,919	923,289
Expenses				
Program services:				
Arizona Western College contributed salaries	103,503			103,503
Scholarships	169,262			169,262
Noncash donations	5,588			5,588
Rental operations	156,465			156,465
Supporting services:				
Management and general	97,293			97,293
Fund-raising	12,583			12,583
Total expenses	544,694			544,694
Changes in net assets	102,498	185,178	90,919	378,595
Net assets at beginning of year, as reclassified	1,402,729	2,117,412	1,799,300	5,319,441
Net assets, end of year	$ 1,505,227	$ 2,302,590	$ 1,890,219	$ 5,698,036

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, 2015

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	$ 3,629,293
Bookstore receipts	356,646
Food services receipts	2,040,977
Dormitory rentals and fees	440,965
Other receipts	917,512
Payments to suppliers and providers of goods and services	(12,566,564)
Payments for employee wages and benefits	(37,488,753)
Payments to students for scholarships	(9,146,579)
Net cash used for operating activities	(51,816,503)
Cash flows from noncapital financing activities:	
Property taxes	31,352,808
State appropriations	3,609,100
Government grants	23,066,206
Share of state sales taxes	843,061
Private grants and gifts	629,574
Other nonoperating expenses	(118,512)
Federal direct lending receipts	1,497,716
Federal direct lending disbursements	(1,497,716)
Deposits held in custody for others received	2,479,324
Deposits held in custody for others disbursed	(2,450,987)
Net cash provided by noncapital financing activities	59,410,574
Cash flows from capital and related financing activities:	
Proceeds from issuance of bonds	514,106
Principal paid on capital debt	(2,650,000)
Capital grants and gifts	52,301
Interest paid on capital debt	(2,334,985)
Purchases of capital assets	(3,782,715)
Net cash used for capital and related financing activities	(8,201,293)
Cash flows from investing activities:	
Interest received on investments	204,083
Net cash provided by investing activities	204,083
Net decrease in cash and cash equivalents	(403,139)
Cash and cash equivalents, July 1, 2014	33,300,200
Cash and cash equivalents, June 30, 2015	$ 32,897,061

(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, 2015
(Continued)

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (57,115,957)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	4,394,844
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources	
Increase in:	
Deferred outflows of resources related to pensions	(3,130,228)
Accounts payable	522,253
Accrued payroll and employee benefits	39,123
Unearned revenues	90,648
Deferred inflows of resources related to pensions	6,551,191
Decrease in:	
Other receivables	47,048
Prepaid items	35,974
Compensated absences payable	(53,038)
Net pension liability	(3,198,361)
Net cash used for operating activities	$ (51,816,503)
Noncash transactions	
Refinancing of long-term debt	17,522,182
Gifts of depreciable and nondepreciable assets	90,597
Amortization of premium on bonds	20,727
Expense bond issuance costs	(230,830)

See accompanying notes to financial statements.

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).

For the year ending June 30, 2015, the District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits.

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, 2015, the Foundation distributed $103,503 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 $444,946 during the year ended June 30, 2014, 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 $118,183 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, AZ 85364-0929.

B. Basis of Presentation and Accounting

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

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

A statement of revenues, expenses, and changes in net position provides information about the District’s financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net position are reported, including capital contributions and additions to endowments. Operating revenues and expenses generally result from exchange transactions. Accordingly, revenues, such as tuition and bookstore, food service, and dormitory charges, in which each party receives and gives up essentially equal values, are considered operating revenues. Other revenues, such as property taxes, state appropriations, and government grants, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered 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 as revenue in the year for which they are levied. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed by the provider have been met.

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

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

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. All investments are stated at fair value.

D. Capital Assets

Capital assets are reported at actual cost (or historical cost if historical records are not available). 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. Deferred Outflows and Inflows of Resources

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

F. Pensions

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

G. Investment Earnings

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

H. Compensated Absences

Compensated absences payable consists of vacation leave employees earned based on services already rendered.

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

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

I. Scholarship Allowances

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

Note 2 - Change in Accounting Principle

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	Primary Government
Net Position as previously reported at June 30, 2014	$ 56,606,100
Prior period adjustment–implementation of GASB 68:	
Net pension liability (measurement date as of June 30, 2013)	(40,661,755)
Deferred outflows—district contributions made during fiscal year 2014	2,442,085
Total prior period adjustment	(38,219,670)
Net position as restated, July 1, 2014	$ 18,386,430

Note 3 - Deposits and Investments

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

Deposits—At June 30, 2015, the total cash on hand was $7,430, the carrying amount of the District's deposits was $7,467,906, and the bank balance was $7,557,012. The District does not have a formal policy with respect to custodial credit risk for deposits.

Investments—At June 30, 2015, the District's investments consisted of the following:

Investment Type	Amount
State Treasurer's investment pool 7	$ 50,004
County Treasurer's investment pool	12,238,463
U.S. Treasury securities	5,458,167
U.S. agency securities	7,675,091
Total	$25,421,725

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, 2015, credit risk for the District's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment pool 7	Unrated	Not applicable	$ 50,004
County Treasurer's investment pool	Unrated	Not applicable	12,238,463
U.S. agency securities	Aaa/AA+	Moody's/Standard & Poor's	7,675,091
Total			$19,963,558

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, 2015, of 5 percent or more in Federal National Mortgage Association and Federal Home Loan Mortgage. These investments were 17 percent and 6 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 1 to 3 years. At June 30, 2015, the District had the following investments in debt securities:

Investment Type	Amount	Investment Maturities: Less than 1 Year	Investment Maturities: 1-3 Years
State Treasurer's investment pool 7	$ 50,004	$ 50,004	
County Treasurer's investment pool	12,238,463	12,238,463	
U.S. Treasury securities	5,458,167	1,491,401	$3,966,766
U.S. agency securities*	7,675,091	1,708,033	5,967,058
Total	$25,421,725	$15,487,901	$9,933,824

* At June 30, 2015, $733,816 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	$408,748
U.S. agency security with a coupon tied to LIBOR plus/minus a fixed basis point amount which resets quarterly	325,068
	$733,816

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	$ 7,430	Cash and investments	$32,897,061
Amount of deposits	7,467,906		
Amount of investments	25,421,725		
Total	$32,897,061	Total	$32,897,061

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Land	$ 569,215			$ 569,215
Construction in progress	158,254	$ 2,751,905	$120,454	2,789,705
Total capital assets not being depreciated	727,469	2,751,905	120,454	3,358,920
Capital assets being depreciated:				
Buildings	108,396,830	216,140		108,612,970
Equipment	13,146,963	551,734	113,820	13,584,877
Improvements other than buildings	21,988,464	280,905		22,269,369
Library books	1,613,075	102,485	125,264	1,590,296
Total	145,145,332	1,151,264	239,084	146,057,512

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Less accumulated depreciation for:				
Buildings	$ 32,879,514	$ 2,607,580		$ 35,487,094
Equipment	11,196,902	775,158	$104,670	11,867,390
Improvements other than buildings	13,998,526	926,864		14,925,390
Library books	1,138,465	85,242	125,264	1,098,443
Total	59,213,407	4,394,844	229,934	63,378,317
Total capital assets being depreciated, net	85,931,925	(3,243,580)	9,150	82,679,195
Capital assets, net	$ 86,659,394	$ (491,675)	$129,604	$ 86,038,115

Note 5 - Construction and Other Commitments

The District had major contractual commitments related to various capital projects at June 30, 2015, for the construction of one building and the renovation of two buildings on the main campus, Public Safety Institute Building, Theatre, and Welding Technology II. At June 30, 2015, the District had spent $2,789,705 on these projects and had remaining contractual commitments with contractors of $1,349,146. The Public Safety Institute Building is being financed by both Unexpended Plant Fund and state monies. The renovations to the Theatre are being financed by Unexpended Plant Fund. The renovations to the Welding Technology II Building are being financed by both Unexpended Plant Fund and federal monies awarded through U.S. Department of Education. Unexpended Plant Funds used on District capital projects are provided by board-designated monies set aside in prior years from reserve funds, and periodic transfers from the General Fund.

Note 6 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within 1 year
Compensated absences payable	$ 1,349,236	$ 1,224,673	$ 1,277,711	$ 1,296,198	$ 72,198
Bonds payable:					
General obligation bonds	$ 62,590,000	$16,535,000	$19,185,000	$ 59,940,000	$2,955,000
Premiums	3,722,107	1,501,288	113,654	5,109,741	167,862
Total long-term debt	$ 66,312,107	$18,036,288	$19,298,654	$ 65,049,741	$3,122,862
Net pension liability	$ 40,661,755		$ 3,198,361	$ 37,463,394	
Total long-term liabilities	$108,323,098	$19,260,961	$23,774,726	$103,809,333	$3,195,060

General Obligation Bonds Payable—General obligation bonds payable at June 30, 2015, consisted of the outstanding general obligation bonds presented below. The bonds are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. Bonds have also been issued to advance-refund previously issued bonds. Principal and interest on the bonds are payable from an ad valorem tax levied against all the taxable property in the District. The bonds issued are payable from such a tax without limit as to rate or amount.

General obligation bonds outstanding at June 30, 2015, were as follows:

Description	Original Amount Issued	Interest Rates	Maturity Ranges	Outstanding Principal
General obligation bonds—series 2005	$20,000,000	5.00%	7/1/2015	$ 645,000
General obligation bonds—series 2006	53,850,000	3.75–5.00%	7/1/2015-31	14,475,000
General obligation refunding bonds—series 2014	28,665,000	1.00–5.00%	7/1/2015-25	28,285,000
General obligation refunding bonds—series 2014A	16,535,000	1.00–5.00%	7/1/2015-30	16,535,000
				$59,940,000

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

	Principal	Interest
Year ending June 30		
2016	$ 2,955,000	$ 2,477,609
2017	2,575,000	2,342,588
2018	2,690,000	2,245,263
2019	2,770,000	2,149,513
2020	2,875,000	2,036,613
2021-25	16,415,000	8,205,088
2026-30	21,005,000	3,868,881
2031-32	8,655,000	306,675
Total	$59,940,000	$23,632,230

During the year ended June 30, 2015, the District issued general obligation bonds with an average coupon rate of 4.271 percent to advance-refund older, higher-rate issues with an average coupon rate of 4.492 percent. However, the District also realized a premium from the sale of the refunding bonds in the amount of $1,501,288, which lowers the effective cost of the refunding bonds to 3.160 percent. The District realized net present value savings of $925,856 after payment of $230,830 in underwriting fees and other issuance costs. The District used these proceeds to purchase securities that it 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:

Amount of refunding bonds issued	$16,535,000
Amount of bonds refunded	16,535,000
Reduction in debt service payments	1,241,597
Economic gain	925,856

In the previous year, the District defeased certain general obligation bonds using the proceeds of new bonds with a lower interest rate. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the defeased general obligation bonds are not included in the District's financial statements. At June 30, 2015, the District had General Obligation Bonds Series 2005 of $7,445,000 and General Obligation Bonds Series 2006 of $21,220,000 outstanding that are considered defeased.

Note 7 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District 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 and automobile 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: $110,500,310	$1,000/occurrence
Automobile	$10,000,000/occurrence	None
	$15,000 each person/$250,000 each accident underinsured/uninsured motorist	
Commercial crime	$1,500,000/occurrence	$100/occurrence

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

In addition, the District is a member of the Yuma Area Benefit Consortium (the Consortium), which provides 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 six 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 requires 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 8 - Pension and Other Postemployment Benefits

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

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

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

* With actuarially reduced benefits.

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

Contributions—In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, the District was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.31 percent for retirement, 0.20 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the District in positions that would typically be filled by an employee who contributes to the ASRS. The District's contributions to the pension plan for the year ended June 30, 2015, were $2,674,695. The District's contributions for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows:

	Health Benefit Supplement Fund	**Long-Term Disability Fund**
Year ended June 30		
2015	$137,755	$28,026
2014	133,789	53,493
2013	137,491	50,802

Pension liability—At June 30, 2015, the District reported a liability of $37,463,394 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2014. The District's proportion measured as of June 30, 2014, was 0.25 percent, which was an increase of 0.01 from its proportion measured as of June 30, 2013.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2015, the District recognized pension expense for ASRS of $2,897,297. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$1,903,999	
Net difference between projected and actual earnings on pension investments		$6,551,191
Changes in proportion and differences between district contributions and proportionate share of contributions	993,619	
District contributions subsequent to the measurement date	2,674,695	
Total	$5,572,313	$6,551,191

The $2,674,695 reported as deferred outflows of resources related to ASRS pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2016	$ (377,964)
2017	(377,964)
2018	(1,259,847)
2019	(1,637,798)

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

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	63%	7.03%
Fixed income	25%	3.20%
Real estate	8%	4.75%
Commodities	4%	4.50%
Total	100%	

Discount rate—The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that the contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the ASRS net pension liability to changes in the discount rate—The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
District's proportionate share of net pension liability	$47,351,809	$37,463,394	$32,098,433

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

Pension contributions payable—The District's accrued payroll and employee benefits included $1,409 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2015.

Note 9 - 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	$37,697,440
Contract services	5,738,337
Supplies and other services	2,171,675
Communications and utilities	2,178,612
Scholarships	9,146,579
Depreciation	4,394,844
Other	3,036,168
Total	$64,363,655

Note 10 - Discretely Presented Component Unit

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

Summary of Significant Accounting Policies

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

Basis of Accounting—The financial statements of the Foundation have been prepared on the accrual basis of accounting 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 accounting principles generally accepted in the United States of America. 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 it use. Designated net assets are assets that the board of directors have designated for the purpose of matching donated contributions for the Dream to Reality Program. These assets are held in investments in an endowment fund.

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

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 and cash equivalents held for long-term investment purposes are included 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.

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, furniture and equipment are not capitalized. Estimated useful lives of property and equipment range from 3 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, 2015, no uncertain tax positions have been identified and accordingly, no provision has been made. As of June 30, 2015, tax years 2012 through 2014 remain subject to examination by major tax jurisdictions.

Reclassifications—During 2015, certain corrections were made to classifications reported on the statements of financial position for designated and undesignated net assets and on the statement of financial position and the related statements of activities for temporarily restricted net assets that were incorrectly reported as unrestricted net assets. Balances reported for the year ended June 30, 2014, were reclassified for comparability purposes.

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).

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 tables sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2015:

	Level 1	Level 3	Total
June 30, 2015			
Equities	$1,561,171		$1,561,171
Corporate bonds	982,509		982,509
Mutual funds	764,898		764,898
Mutual funds—equity securities	743,796		743,796
Real estate (REIT and other)	259,890		259,890
Land		$13,841	13,841
Total investments	4,312,264	13,841	4,326,105
Note receivable		47,486	47,486
Total assets, June 30, 2015	$4,312,264	$61,327	$4,373,591

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, 2015:

Balances at beginning of year	$48,718
Donation of land	13,841
Principal payments on note receivable	(1,232)
Balances at end of year	$61,327

Note Receivable

During the year ended June 30, 2014, the Foundation sold land originally held as a permanently restricted investment. The Foundation entered into an agreement with the buyer to finance a portion of the purchase price. The loan is collectible in monthly installments of $299 including interest at 6% per annum through June, 2020 with a remaining balance due at maturity of $43,092. The outstanding balance on the note at June 30, 2015 is $47,486.

Property and Equipment

Property and equipment as of June 30, 2015, consists of the following:

Building and improvements	$1,175,411
Furniture and equipment	9,491
	1,184,902
Less: accumulated depreciation	(663,794)
	521,108
Land	254,740
Net property and equipment	$ 775,848

Capital Lease Obligations

On September 30, 2013, the Foundation entered into a capital lease agreement for the acquisition of a copier. The obligation has an interest rate of 7% payable in monthly installments of $115 through December 2018. Future minimum lease payments under this lease are as follows:

June 30	Amount
2016	$ 1,381
2017	1,381
2018	1,381
2019	690
Total payment	4,833
Less amount representing interest	557
Total principal	4,267
Less: current portion	(1,117)
Long-term portion	$ 3,159

Assets acquired under capital leases are recorded at $6,052 and the accumulated depreciation on these assets as of June 30, 2015 was $2,284.

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 the year ended June 30, 2014, Arizona Western College Foundation designated $444,946 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.

The composition of and changes in the board designated endowment assets for the year ended June 30, 2015 were as follows:

Balance, beginning of year as reclassified	$411,024
Increase in designation	33,922
Balance, end of year	$444,946

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

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.

The summary of changes in endowment fund balances for the year ended June 30, 2015 follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance as of June 30, 2014, as reclassified	$ 769,092	$1,799,300	$2,568,392
Contributions	165,843	90,919	256,762
Endowment adjustments	7,317		7,317
Investment return:			
Investment income	139,748		139,748
Investment expenses	(41,430)		(41,430)
Realized gains	8,979		8,979
Unrealized gains	74,093		74,093
Total investment return	181,390		181,390
Appropriations	(167,778)		(167,778)
Balance as of June 30, 2015	$ 955,864	$1,890,219	$2,846,083

Temporarily Restricted

The components of temporarily restricted net assets at June 30, 2015, are as follows:

Endowments	$ 955,864
Other investments	1,346,726
Total temporarily restricted net assets	$2,302,590

Other Required Supplementary Information

Yuma/La Paz Counties Community College District
(Arizona Western College)
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
June 30, 2015

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2015 (2014)	**2014 through 2006**
District's proportion of the net pension liability	0.253189%	Information not available
District's proportionate share of the net pension liability	$37,463,394	
District's covered-employee payroll	$22,952,857	
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	163%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	

Yuma/La Paz Counties Community College District
(Arizona Western College)
Required Supplementary Information
Schedule of the District's Pension Contributions
June 30, 2015

Arizona State Retirement System

	Reporting Fiscal Year		
	2015	2014	2013 through 2006
Statutorily required contribution	$ 2,674,695	$ 2,385,898	Information
District's contributions in relation to the statutorily required contribution	2,674,695	2,385,898	not available
District's contribution deficiency (excess)	$ -	$ -	
District's covered-employee payroll	$ 24,188,420	$ 22,952,827	
District's contributions as a percentage of covered-employee payroll	11.06%	10.40%	

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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, 2015

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of the Interior						
15 238	Challenge Cost Share				$ 11,566	
15 808	US Geological Survey—Research and Data Collection				11,297	
	Total Department of the Interior				22,863	
Department of Labor						
17 258	WIA Adult Program	WIA Cluster	Yuma Private Industry Council, Inc	AH2014-07-01/AdultFull, AH2014-07-01/AdultABE	200,765	
17 259	WIA Youth Activities	WIA Cluster	Yuma Private Industry Council, Inc	AH2014-07-01/OSY10, AH2014-07-01/ YouthABE, AH2015-05-12	146,016	
17 260	WIA Dislocated Workers	WIA Cluster	Yuma Private Industry Council, Inc	AH2014-07-01/DWFull, AH2014-07-01/DWABE	33,618	
	Total WIA Cluster				380,399	
17 274	Youthbuild		Yuma Private Industry Council, Inc	None	9,783	
	Total Department of Labor				390,182	
National Science Foundation						
47 076	Education and Human Resources				11,190	
47 076	Education and Human Resources		Science Foundation Arizona	STEM 603-14/DUE-1400687	5,535	
	Total National Science Foundation				16,725	
Small Business Administration						
59 037	Small Business Development Centers		Maricopa County Community College District	4-603001-EZ-0025 SBAHQ-14-B-0050, PO#497460, PO#499456	99,801	
59 044	Veterans Outreach Program		Maricopa County Community College District	SBAHQ-15-V-0026	1,500	
	Total Small Business Administration				101,301	
Department of Education						
84 007	Federal Supplemental Educational Opportunity Grants	Student Financial Assistance Cluster			411,135	
84 033	Federal Work-Study Program	Student Financial Assistance Cluster			318,139	
84 063	Federal Pell Grant Program	Student Financial Assistance Cluster			17,186,099	
84 268	Federal Direct Student Loans	Student Financial Assistance Cluster			1,497,716	
	Total Student Financial Assistance Cluster				19,413,089	
84 031	Higher Education—Institutional Aid				2,554,115	$ 450,583
84 042	TRIO—Student Support Services	TRIO Cluster			328,295	
84 044	TRIO—Talent Search	TRIO Cluster			275,253	
84 047	TRIO—Upward Bound	TRIO Cluster			281,058	
	Total TRIO Cluster				884,606	
84 048	Career and Technical Education—Basic Grants to States		Arizona Department of Education	14FCTDBG-470521-01A, 15FCTDBG-570521-20A, 14FCTPSG-470521-02A, 15FCTPSG-570521-43B	274,329	
84 149	Migrant Education—College Assistance Migrant Program				443,964	
	Total Department of Education				23,570,103	450,583
	Total expenditures of federal awards				$ 24,101,174	$ 450,583

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, 2015

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 2015 *Catalog of Federal Domestic Assistance.*

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STATE OF ARIZONA
DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL
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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 11, 2015. Our report includes a reference to other auditors who audited the financial statements of the Arizona Western College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. However, the financial statements of the Arizona Western College Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of noncompliance associated with the Arizona Western College Foundation.

Internal Control over Financial Reporting

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

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 certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2015-01, 2015-02, and 2015-03 to be material weaknesses.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2015-04 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free 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 Findings

Yuma/La Paz Counties Community College District's responses to the findings identified in our audit are presented on pages 49 through 53. The District's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

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

Debbie Davenport
Auditor General

December 11, 2015

STATE OF ARIZONA
DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL
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) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. 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.

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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, 2015.

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.

Purpose of the Report

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 11, 2015

Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified	
	Yes	**No**
Internal control over financial reporting:		
Material weaknesses identified?	X	
Significant deficiency identified?	X	
Noncompliance material to the financial statements noted?		X

Federal Awards

Internal control over major programs:		
Material weaknesses identified?		X
Significant deficiencies identified?		X (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])?		X

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.031	Higher Education—Institutional Aid
84.149	Migrant Education—College Assistance Migrant Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
	Yes	**No**
Auditee qualified as low-risk auditee?	___	X

Other Matters

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

Financial Statement Findings

2015-01

The District should improve access controls over its information technology resources

Criteria: The District should have effective internal control policies and procedures to control access to its information technology (IT) resources, which include its systems, network, infrastructure, and data.

Condition and context: The District did not have policies and procedures in place for periodically reviewing employees' user access accounts to ensure their access remained necessary and appropriate. Specifically, auditors noted that the District allowed an excessive number of generic and administrator access accounts that various employees could use to gain access. In addition, the District did not have documented policies and procedures to restrict access to its data center and periodically review assigned access. Auditors identified one employee with physical access to the data center that was not necessary for their job responsibilities. Finally, the District did not have adequate network password policies because the District's network lockout procedures did not conform to IT best practices.

Effect: There is an increased risk that the District may not prevent or detect unauthorized access or use, damage, loss, or manipulation of IT resources, including sensitive and confidential information.

Cause: The District focused its efforts on the day-to-day operations and did not prioritize its review of IT policies and procedures to ensure they met IT standards and best practices.

Recommendation: To help prevent and detect unauthorized access or use, damage, loss, or manipulation to its IT resources, the District should establish effective policies and procedures that include the following:

- Removing employees' network and financial information systems access immediately upon their terminations.
- Reviewing all system generic and administrator access accounts to eliminate or minimize their use when possible.
- Reviewing employees' network and systems access immediately when their job responsibilities change to ensure access granted is compatible with their new job responsibilities.
- Restricting data center access to employees who need it for their job responsibilities and periodically reviewing access granted to ensure that it continues to be needed.
- Strengthening network password policies by developing a reasonable account lockout threshold for incorrect password attempts.

This finding is similar to prior-year finding 2014-01.

2015-02

The District should improve its information technology resources change management processes

Criteria: The District should have effective written change management internal control policies and procedures to track and document changes made to its information technology (IT) resources, which include its systems, network, infrastructure, and data.

Condition and context: The District's written policies and procedures for managing changes to its IT resources lacked critical elements. Specifically, the District's policies did not include detailed procedures for documenting the changes' complexity or for testing, reviewing, and approving changes prior to implementation. In addition, the District did not ensure adequate separation of system change responsibilities so that no one person had complete control over the process to help prevent unauthorized changes. Further, the District's policies and procedures were not sufficiently detailed to address installing operating system and third-party software patches and configuring critical operating systems and infrastructure, including servers, routers, and switches. Lastly, although the District had a process to document changes to its infrastructure equipment, it did not maintain documentation of any changes made during the year.

Effect: There is an increased risk that changes to the District's IT resources could be unauthorized or inappropriate, or could have unintended results, without proper documentation, authorization, review, testing, and approval, prior to being applied.

Cause: The District developed change management policies and procedures in prior fiscal years in response to deficiencies found in prior audits. However, the District focused its efforts on the day-to-day operations and did not prioritize updating its IT change management policies and procedures and ensuring they were complete.

Recommendation: The District should follow its existing change management policies and procedures and ensure all changes are properly documented, authorized, reviewed, tested, and approved prior to implementation. Finally, the District should evaluate its existing policies and procedures to ensure they are sufficiently detailed to address:

- Tracking and reconciling all changes to IT resources, including documenting the complexity of changes.
- Separating the responsibilities for developing and implementing changes from the responsibilities of authorizing, reviewing, testing, and approving changes for implementation.
- Testing, authorizing, and storing configuration for servers, routers, switches, and other IT resources.
- Developing rollback procedures to back out changes that negatively impact the IT resources.
- Testing and reviewing all changes, including the installation of software patches, and system and hardware configurations.
- Using dummy data for developing and testing changes.
- Approving the change at each phase of the change management process, such as development, testing, and implementation.

- Prohibiting users from making changes and bypassing the change management process.

This finding is similar to prior-year finding 2014-02.

2015-03

The District should improve security over its information technology resources

Criteria: To effectively maintain and secure financial and sensitive information, the District should establish effective internal control policies and procedures that include practices to help prevent, detect, and respond to instances of unauthorized access or use, manipulation, damage, or loss to its information technology (IT) resources, which include its systems, network, infrastructure, and data that are based on acceptable IT industry practices.

Condition and context: The District did not have sufficient written policies and procedures to effectively secure its IT resources. Specifically, the District did not:

- Develop and conduct a district-wide IT security risk assessment process on a periodic basis or at least annually that includes documenting results, reviewing by appropriate personnel, and prioritizing risks identified for remediation.
- Identify and classify data by sensitivity and take appropriate action to protect sensitive information.
- Log and monitor key user and system activity. Certain users whose activities should have been monitored had the ability to edit or delete their activities recorded on the logs.
- Require appropriate security measures for employee-owned electronic devices with access to the District's network and monitor these devices' use. Employees may use their own electronic device, such as a tablet, computer, or phone, to connect to the District's network; however, there was no process to approve and monitor electronic devices' use and no guidance to ensure the proper usage and security of the devices and the District's data.
- Establish a process to respond to security incidents.
- Perform network configuration reviews, such as evaluating firewall settings.
- Provide continuous training to keep IT personnel up to date on IT security risks, controls, and practices. In addition, the District did not have a security awareness program for its employees, nor did it have a training program to help ensure they were familiar with the District's IT security policies and procedures.
- Have a formal process to ensure unused Ethernet ports in public areas are disabled.

Effect: There is an increased risk that the District may not prevent or detect unauthorized access or use, manipulation, damage, or loss to its IT resources.

Cause: The District focused its efforts on the day-to-day operations and did not prioritize its review of IT policies and procedures to ensure they met IT standards and best practices.

Recommendation: To help ensure that the District is able to effectively maintain and secure its IT resources, the District should ensure its existing IT security policies and procedures are based on acceptable IT industry practices and are implemented, and address the following:

- Conduct an IT security risk assessment process at least annually that includes documenting of results, evaluating by appropriate individuals, and prioritizing of risks for remediation.
- Identify, classify, and inventory sensitive information and develop security measures to protect it, such as implementing controls to prevent unauthorized access to that information.
- On a proactive basis, log key activities for wireless activity, including wireless access points not belonging to the District, remote and unauthorized access, as well as user and system activity on its IT systems, and monitor these logs. Also, these policies and procedures should include a process for tracking the activities of users with administrative access privileges for all critical IT systems and maintaining activity logs where users with administrative access privileges cannot alter them.
- Manage employee-owned electronic devices connected to the District's network, including specifying the data appropriate to access; inventorying devices; establishing controls to support wiping data; requiring security features, such as passwords, antivirus controls, and software updates; and restricting the running of unauthorized software applications while on the District's network.
- Establish a process to respond to security incidents. This process should include developing and testing an incident response plan and training staff responsible for the plan. These policies and procedures should include following regulatory requirements and making disclosures to affected individuals should an incident occur.
- Establish guidelines for IT staff to follow when reviewing network configurations, such as firewalls; implement a process to disable unused Ethernet ports in public areas; and protect its IT resources from being used for inappropriate or illegal activities.
- Develop a plan to provide continual IT training on IT security risks, controls, and practices for the District's IT personnel, as well as develop and provide periodic, mandatory, district-wide training for all employees on security awareness and its security policies and procedures.
- Perform a comprehensive review of its IT policies and procedures against IT industry standards and best practices to identify any gaps or areas for improvement.

This finding is similar to prior-year finding 2014-03.

2015-04

The District should improve its disaster recovery plan and data backup procedures for its information technology resources

Criteria: It is critical that the District have a comprehensive, up-to-date disaster recovery plan and data backup policies and procedures in place to provide for the continuity of operations and to help ensure that vital information technology (IT) resources, which include its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other interruption.

Condition and context: Auditors reviewed the District's disaster recovery plan in place during the fiscal year and determined it lacked certain key elements related to restoring operations, including critical business processes. Specifically, the plan did not include:

- An analysis and prioritization of recovery for key business processes, including acceptable time frames for restoring those processes.
- Detailed procedures for moving operations to a separate site should a disaster render the data center at the Yuma, AZ, campus inoperable.
- Detailed written policies and procedures detailing the data backup procedures, including restoring the systems using the backup data in an emergency.

In addition, the District did not perform regularly scheduled, comprehensive tests; document test results; and update the plan for any problems noted.

Effect: The District risks not being able to provide for the continuity of operations, recover vital IT resources and data, and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system data and information and expensive recovery.

Cause: The District was unaware its plan lacked key components and did not evaluate its plan against current IT industry standards and best practices.

Recommendation: To help ensure the continuity of the District's operations in the event of a disaster, system or equipment failure, or other interruption, the District should:

- Conduct a business impact analysis to evaluate the impact disasters could have on its critical business processes and revise its disaster recovery plan to include the results of the analysis.
- Develop procedures for migrating critical infrastructure to a separate site.
- Implement a procedure to test its backup data on a regular basis and improve its existing written policies and procedures to ensure they are sufficiently detailed to address backing up and restoring data.
- Develop a process to perform regularly scheduled tests of the disaster recovery plan and document the tests performed and results. This process should include updating and testing the disaster recovery plan at least annually or as changes necessitate. Plan testing may include actual tests, simulations, or table top discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. Also use test results to update or change the plan.

This finding is similar to prior-year finding 2014-04.

Federal Award Findings and Questioned Costs

None reported.

ARIZONA WESTERN COLLEGE

December 11, 2015

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,

Diana G. Doucette
Director of Financial Services and Controller

/kmv

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Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective Action Plan
Year Ended June 30, 2015

Financial Statement Findings

2015-01
The District should improve access controls over its information systems resources

Corrective Action Plan:

The District will improve its policies and procedures regarding access controls and document their implementation. They will include:

- Periodic comprehensive reviews of existing employee (including generic and administrator) access accounts within Active Directory to ensure the network and information system access is granted based on job responsibility and is removed immediately upon change of responsibility, including termination
- Quarterly reviews of physical access to the data center
- Reasonable account lockout thresholds for incorrect password attempts

This will be implemented on or before March 2016

Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective Action Plan
Year Ended June 30, 2015

Financial Statement Findings

2015-02
The District should improve its information systems change management processes

Corrective Action Plan:

The District will improve its policies and procedures regarding change management and document their implementation. They will include:

- Critical changes to servers and network equipment, which contains written approval prior to implementation, hardware configuration changes and software patch management along with a rollback strategy for each critical change
- Separating responsibilities and improving the use of the change management process
- Documenting the usage of dummy data and the testing environment when testing changes.

This will be implemented on or before March 2016.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective Action Plan
Year Ended June 30, 2015

Financial Statement Findings

2015-03
The District should improve security over its information technology resources

Corrective Action Plan:

The District will improve its policies and procedures regarding management and security of its IT resources and document their implementation. They will include:

- Periodic IT security risk assessment
- Identifying, classifying and protecting sensitive information, including from IT vendors
- Logging and monitoring key user, system activity and Ethernet port usage
- Implementing appropriate security measures for employee-owned electronic devices that have access to the District's network and monitoring the use of these devices periodically
- Reviewing network configuration such as firewall settings
- Security incident response and training

This will be implemented on or before March 2016

Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective Action Plan
Year Ended June 30, 2015

Financial Statement Findings

2015-04
The District should improve its disaster recovery plan and data backup procedures for its information technology resources

Corrective Action Plan:

The District will continue to improve its policies and procedures regarding disaster recovery and data backup and document their implementation. A business impact analysis was conducted in September 2015 and the disaster recovery plan was updated. Two simulation exercises are planned, December 2015 and February 2016.

The district will improve its procedures for migrating critical infrastructure and operations to an alternative location and perform periodic testing of data backup procedures. This will be implemented on or before March 2016.