



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

# Yuma/La Paz Counties Community College District

(Arizona Western College)

Year Ended June 30, 2010

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**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, 2010

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

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

We have audited the accompanying 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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 financial statements were audited by other auditors whose report thereon 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 of 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2010, 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* and should be considered in assessing the results of our audit.

Debbie Davenport  
Auditor General

December 13, 2010

Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Management's Discussion and Analysis  
Year Ended June 30, 2010

This discussion and analysis was prepared by management and introduces the basic financial statements to provide an overview of the District's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the financial statements, which immediately follow.

## Basic Financial Statements

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

The Statement of Net Assets reflects the financial position of the District at June 30, 2010. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represents institutional equity or ownership in the total assets of the District. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and other changes for the year ended June 30, 2010. It shows the various revenues and expenses, both operating and non-operating, reconciling the beginning net assets amount to the ending net assets amount, which is shown on the Statement of Net Assets described above.

The Statement of Cash Flows presents the inflows and outflows of cash and cash equivalents for the year ended June 30, 2010. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Assets described above. In addition, this statement reconciles cash flows from operating activities to operating income/loss on the Statement of Revenues, Expenses and Changes in Net Assets described above.

The primary focus of this document is on the results of activity for the fiscal year ended June 30, 2010. This Management's Discussion and Analysis (MD&A) uses the prior fiscal year for comparison purposes which illustrates where the District's financial performance may have changed.

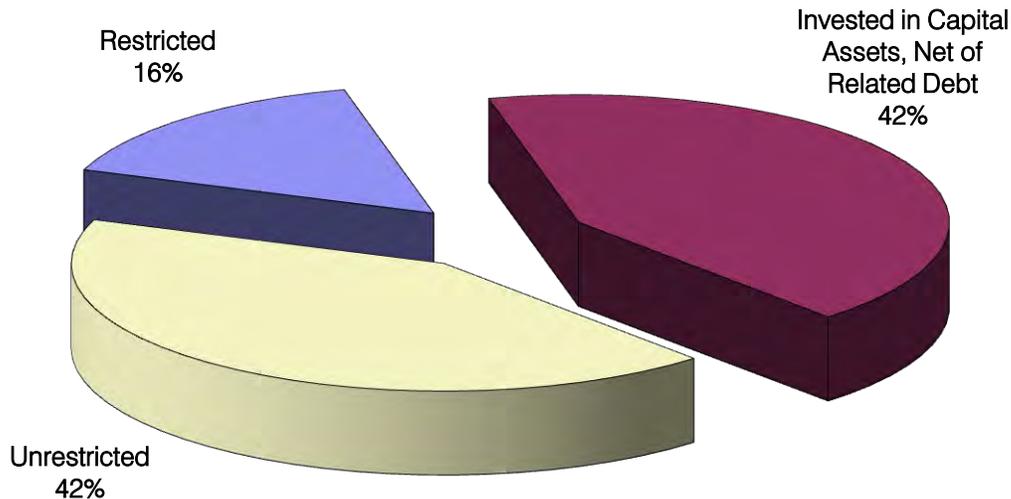
Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Management's Discussion and Analysis  
 Year Ended June 30, 2010

Condensed Financial Information

Net Assets as of June 30

	2010	2009
Assets:		
Current assets	\$ 48,194,907	\$ 46,208,563
Noncurrent assets, other than capital assets	862,933	992,303
Capital assets, net	<u>94,727,890</u>	<u>94,763,333</u>
Total assets	<u>143,785,730</u>	<u>141,964,199</u>
Liabilities:		
Other liabilities	15,792,336	16,136,718
Long-term liabilities	<u>72,959,449</u>	<u>75,415,275</u>
Total liabilities	<u>88,751,785</u>	<u>91,551,993</u>
Net Assets		
Invested in capital assets, net of related debt	23,226,049	21,744,884
Restricted net assets	8,569,296	7,940,731
Unrestricted net assets	<u>23,238,600</u>	<u>20,726,591</u>
Total net assets	<u>\$ 55,033,945</u>	<u>\$ 50,412,206</u>

Percent of Net Assets for 2010



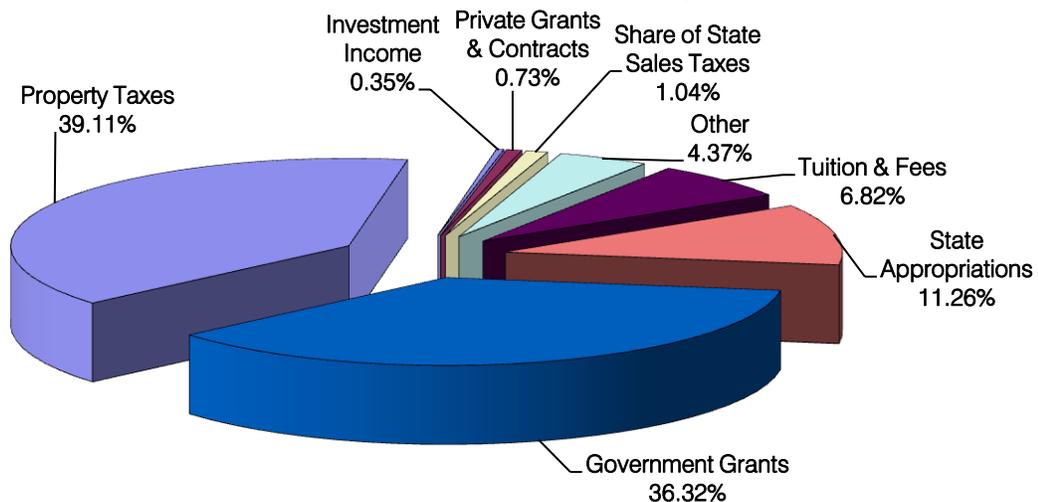
Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Management's Discussion and Analysis  
Year Ended June 30, 2010

**Changes in Net Assets  
For the Year Ended June 30**

	2010	2009, as reclassified*
Revenues		
Operating		
Tuition and fees (net of scholarship allowances)	\$ 4,693,717	\$ 4,349,065
Other (net of scholarship allowances)	3,009,874	4,476,493
Nonoperating		
Property taxes	26,919,661	26,344,259
State appropriations	7,751,200	7,017,434
Government grants	24,993,176	17,860,862
Share of state sales taxes	715,686	665,283
Private grants and contracts	501,781	663,453
Investment income	238,184	597,645
Total revenues	<u>68,823,279</u>	<u>61,974,494</u>
Expenses		
Operating	60,944,601	52,093,794
Nonoperating	3,256,939	3,547,158
Total expenses	<u>64,201,540</u>	<u>55,640,952</u>
Increase in net assets	4,621,739	6,333,542
Net assets, Beginning of year	<u>50,412,206</u>	<u>44,078,664</u>
Net assets, June 30	<u>\$55,033,945</u>	<u>\$50,412,206</u>

\* The fiscal year 2009 private grants and contracts has been reclassified for comparison with fiscal year 2010, see explanation on page v.

**Percent of 2010 Revenues by Source**

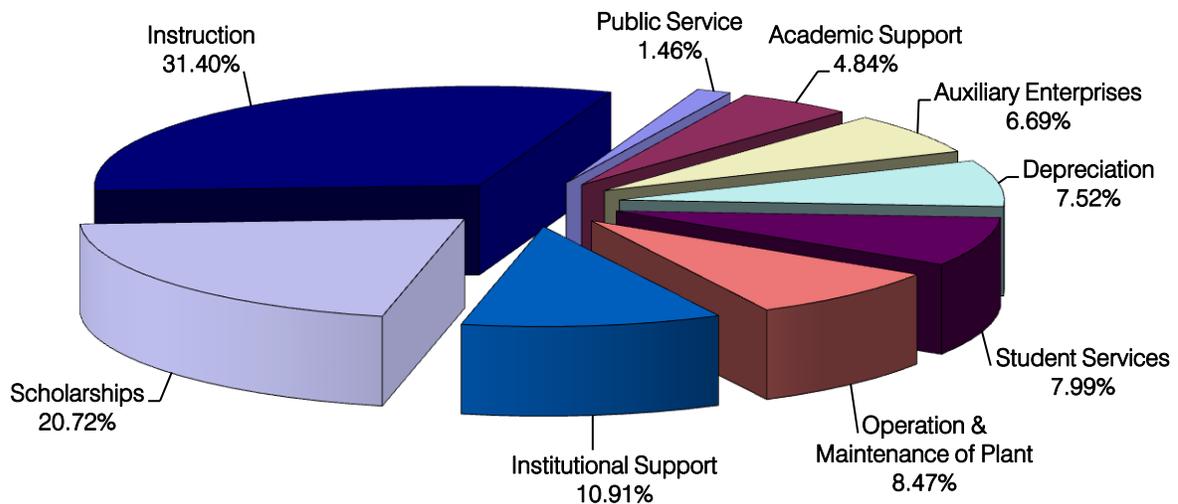


Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Management's Discussion and Analysis  
 Year Ended June 30, 2010

**Expenses by Category  
 For the Year Ended June 30**

	2010	2009
Operating expenses		
Educational and general:		
Instruction	\$19,146,367	\$18,160,670
Public service	887,081	868,636
Academic support	2,948,139	2,733,197
Student services	4,867,039	4,896,098
Institutional support	6,649,729	6,135,655
Operation & maintenance of plant	5,162,250	4,780,934
Scholarships	12,627,617	7,705,421
Auxiliary enterprises	4,075,581	3,490,547
Depreciation	<u>4,580,798</u>	<u>3,322,636</u>
Total operating expenses	<u>60,944,601</u>	<u>52,093,794</u>
Nonoperating expenses		
Interest expense on debt	3,254,594	3,367,408
Other nonoperating expenses	<u>2,345</u>	<u>179,750</u>
Total nonoperating expenses	<u>3,256,939</u>	<u>3,547,158</u>
Total expenses	<u>\$64,201,540</u>	<u>\$55,640,952</u>

**Percent of 2010  
 Operating Expenses by Category**



Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Management's Discussion and Analysis  
Year Ended June 30, 2010

## Financial Highlights and Analysis

### Statement of Net Assets

The District's overall financial position improved in FY 2010. Total assets increased \$1.8 million from FY 2009 to FY 2010. This increase is primarily due to increases in cash and cash equivalents.

Total liabilities decreased by \$2.8 million, which is mostly due to a reduction in long-term debt.

Total net assets for the District increased by \$4.6 million from FY 2009 to FY 2010. This increase is primarily attributable to an increase of \$1.5 million in net assets invested in capital assets, net of related debt, an increase of \$944 thousand in net assets expendable for grants and contracts, and an increase of \$2.5 million in unrestricted net assets.

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

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

The District has four major revenue sources. These are property taxes, tuition and fees, state appropriations, and grants and contracts. These revenues are further identified as operating or nonoperating revenues. In addition, the District reclassified its private grants and contracts revenue as nonoperating in FY 2010 based on additional guidance provided from GASB.

For FY 2010 the District's total revenues increased \$6.8 million over FY 2009. The following revenue sources make up a significant portion of this total increase:

- Other operating revenues decreased \$1.5 million primarily due \$1.9 million in contributions made in FY 2009 to construct the Agriculture/Science Facility.
- Government grants increased \$7.1 million, which included a \$5.7 million increase in student financial assistance under the American Recovery and Reinvestment Act (ARRA) for Pell grants to students. The District also had an increase of \$1.9 million for the Higher Education—Institutional Aid program for the construction of a math facility. In addition, the District continued to receive State Fiscal Stabilization Fund monies in FY 2010 under the ARRA.
- Property taxes increased \$575 thousand due to increases in property valuations and new construction.
- State appropriation increased \$734 thousand primarily due to an increase in equalization aid.

Total operating expenses increased by \$8.9 million from FY 2009 to FY 2010. These increases reflect a \$4.9 million increase in scholarship expenses due to enrollment growth, a \$1.3 million increase in depreciation expense as several new facilities were completed, and a \$1 million increase in salaries due to increased student enrollment, reclassification, and employee benefits enhancement. These expenses are reflected in the District's function/program expenses.

Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Management's Discussion and Analysis  
Year Ended June 30, 2010

Nonoperating expenses in 2010 for interest expense on debt decreased slightly due to scheduled retirements of long-term debt.

### Capital Assets and Debt Administration

The District's capital assets, net of accumulated depreciation totaled \$94,727,890 as of June 30, 2010. Capital assets include land, buildings, and improvements other than buildings, equipment, and library books. Additional information on capital assets can be found in detail in Note 3 to the District's basic financial statements.

At June 30, 2010, the District had four long-term debt issues outstanding: three general obligation bond issues totaling \$71,005,000, and one revenue bond issue totaling \$70,000. Additional information on the District's long-term debt can be found in Note 4 to the basic financial statements.

### Current Factors Having Probable Future Financial Significance

Proposition 301 was passed by the voters at the general election on November 7, 2000. The proposition increased the state transaction privilege tax rate six-tenths of one per cent for twenty years. This increase was to be used for education from K-12 through higher education. Community Colleges are to use the funds for Workforce Development activities. Fiscal year 2010 was the ninth year of this funding and the District received \$715,686. It is anticipated that the District will continue to receive approximately this amount for the next eleven years.

The District is preparing to install a 5 megawatt solar array in spring 2011, which will meet the District's electricity needs. It is estimated that the District will save \$3.5 million during the first ten years of the array's life.

The Arizona state budget is facing a deficit, which will impact the amount of state aid that the District will receive in FY 2011. The District is positioned to fiscally manage itself during this difficult time.

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

Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Statement of Net Assets—Primary Government  
 June 30, 2010

	<u>Business-Type Activities</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 44,163,077
Receivables (net of allowances for uncollectibles of \$99,689)	
Property taxes	1,306,846
Government grants	1,798,003
Other	807,162
Prepaid items	99,098
Deferred financing costs	20,721
Total current assets	<u>48,194,907</u>
Noncurrent assets:	
Restricted assets:	
Cash and investments held by trustees	192,172
Property taxes receivable	260,108
Student loans receivable (net of allowances)	4,649
Deferred charges	406,004
Capital assets, not being depreciated	543,607
Capital assets, being depreciated, net	<u>94,184,283</u>
Total noncurrent assets	<u>95,590,823</u>
Total assets	<u>143,785,730</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 831,251
Accrued payroll and employee benefits	1,044,160
Interest payable	1,626,953
Deferred revenues	252,397
Deposits held in custody for others	12,037,575
Current portion of compensated absences payable	40,230
Current portion of long-term debt	<u>2,305,727</u>
Total current liabilities	<u>18,138,293</u>
Noncurrent liabilities:	
Compensated absences payable	1,417,377
Long-term debt	<u>69,196,115</u>
Total noncurrent liabilities	<u>70,613,492</u>
Total liabilities	<u>88,751,785</u>

(Continued)

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Statement of Net Assets—Primary Government  
 June 30, 2010  
 (Continued)

	<u>Business-Type Activities</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	\$ 23,226,049
Restricted:	
Nonexpendable:	
Student loans	173,503
Expendable:	
Grants and contracts	3,181,396
Debt service	2,012,106
Capital projects	3,202,291
Unrestricted	<u>23,238,600</u>
 Total net assets	 <u><u>\$ 55,033,945</u></u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Statement of Financial Position—Component Unit  
 June 30, 2010

	<u>Arizona Western College Foundation</u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 264,430
Investments	1,812,403
Accounts receivable	2,537
Contributions receivable	<u>42,908</u>
Total current assets	<u>2,122,278</u>
Noncurrent assets	
Contribution receivable	14,075
Property and equipment, net	<u>925,020</u>
Total assets	<u>3,061,373</u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	\$ 8,555
Accrued payroll and related liabilities	<u>432</u>
Total current liabilities	<u>8,987</u>
Compensated absences payable	<u>38,020</u>
Total liabilities	<u>47,007</u>
<b>Net Assets</b>	
Unrestricted	1,099,656
Temporarily restricted	585,290
Permanently restricted	<u>1,329,420</u>
Total net assets	<u>3,014,366</u>
Total liabilities and net assets	<u>\$ 3,061,373</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Statement of Revenues, Expenses, and Changes in Net Assets—Primary Government  
 Year Ended June 30, 2010

	<u>Business-Type Activities</u>
Operating revenues:	
Tuition and fees (net of scholarship allowances of \$6,145,961)	\$ 4,693,717
Bookstore income	307,372
Food service income (net of scholarship allowances of \$297,096)	1,484,566
Dormitory rentals and fees (net of scholarship allowances of \$199,964)	459,065
Other	<u>758,871</u>
Total operating revenues	<u>7,703,591</u>
Operating expenses:	
Educational and general:	
Instruction	19,146,367
Public service	887,081
Academic support	2,948,139
Student services	4,867,039
Institutional support	6,649,729
Operation and maintenance of plant	5,162,250
Scholarships	12,627,617
Auxiliary enterprises	4,075,581
Depreciation	<u>4,580,798</u>
Total operating expenses	<u>60,944,601</u>
Operating loss	<u>(53,241,010)</u>
Nonoperating revenues (expenses):	
Property taxes	26,919,661
State appropriations	7,751,200
Government grants	24,993,176
Share of state sales taxes	715,686
Private grants and gifts	501,781
Investment earnings	238,184
Interest expense on debt	(3,254,594)
Other nonoperating expenses	(413)
Loss on disposal of capital assets	<u>(1,932)</u>
Total nonoperating revenues (expenses)	<u>57,862,749</u>
Increase in net assets	4,621,739
Total net assets, July 1, 2009	<u>50,412,206</u>
Total net assets, June 30, 2010	<u>\$ 55,033,945</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Statement of Activities—Component Unit  
 Year Ended June 30, 2010

	Arizona Western College Foundation			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues and support				
Donations	\$ 21,519	\$ 33,722	\$ 12,233	\$ 67,474
Arizona Western College Support	198,289			198,289
Rental income	114,277			114,277
Interest income, net of expense of \$24,948	22,067			22,067
Unrealized gains	108,686	71,780		180,466
Realized (losses)/gains	(42,423)	25,888		(16,535)
Net assets released from restrictions	<u>120,844</u>	<u>(120,844)</u>		
Total revenues and support	<u>543,259</u>	<u>10,546</u>	<u>12,233</u>	<u>566,038</u>
Expenses				
Program services:				
Arizona Western College contributed				
salaries	197,397			197,397
Scholarships	72,655			72,655
Science/Agriculture building contribution	120,000			120,000
Supporting services:				
Management and general	107,072			107,072
Century plaza	96,747			96,747
Fundraising	<u>38,644</u>			<u>38,644</u>
Total expenses	<u>632,515</u>			<u>632,515</u>
Changes in net assets	(89,256)	10,546	12,233	(66,477)
Net assets at beginning of year	<u>1,188,912</u>	<u>574,744</u>	<u>1,317,187</u>	<u>3,080,843</u>
Net assets, end of year	<u>\$ 1,099,656</u>	<u>\$ 585,290</u>	<u>\$ 1,329,420</u>	<u>\$ 3,014,366</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Statement of Cash Flows—Primary Government  
 Year Ended June 30, 2010

	<u>Business-Type Activities</u>
Cash flows from operating activities:	
Tuition and fees	\$ 4,440,459
Bookstore receipts	300,161
Food services receipts	1,484,566
Dormitory rentals and fees	459,065
Collection of loans to students	352
Other receipts	689,620
Payments to suppliers and providers of goods and services	(24,769,601)
Payments to employees	<u>(31,534,097)</u>
Net cash used for operating activities	<u>(48,929,475)</u>
Cash flows from noncapital financing activities:	
Property taxes	26,695,895
State appropriations	7,751,200
Government grants	25,969,075
Share of state sales taxes	715,686
Private grants and gifts	501,781
Other nonoperating expenses	(413)
Federal Family Education Loans student loan receipts	3,114,069
Federal Family Education Loans student loan disbursements	(3,115,523)
Deposits held in custody for others received	23,351,348
Deposits held in custody for others disbursed	<u>(23,533,682)</u>
Net cash provided by noncapital financing activities	<u>61,449,436</u>
Cash flows from capital and related financing activities:	
Principal paid on capital debt	(2,545,000)
Interest paid on capital debt	(3,310,536)
Purchases of capital assets	<u>(4,547,287)</u>
Net cash used for capital and related financing activities	<u>(10,402,823)</u>
Cash flows from investing activities:	
Interest received on investments	<u>246,480</u>
Net cash provided by investing activities	<u>246,480</u>
Net increase in cash and cash equivalents	2,363,618
Cash and cash equivalents, July 1, 2009	<u>41,991,631</u>
Cash and cash equivalents, June 30, 2010	<u>\$ 44,355,249</u>

(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, 2010  
 (Continued)

	<u>Business-Type Activities</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (53,241,010)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	4,580,798
Changes in assets and liabilities:	
Increase in:	
Prepaid items	(4,770)
Other receivables	(281,922)
Accrued payroll and employee benefits	156,116
Compensated absences	110,107
Decrease in:	
Student loans receivable, net	352
Accounts payable	(201,349)
Deferred revenues	(47,797)
Net cash used for operating activities	<u>\$ (48,929,475)</u>

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Notes to Financial Statements  
June 30, 2010

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

The Foundation is a legally separate, tax-exempt organization. It acts primarily as a fund-raising organization that receives gifts and bequests, administers those resources, and disburses payments to or on behalf of the District for scholarships and other special projects. Although the District does not control the timing or amount of receipts from the Foundation, the Foundation's restricted resources can only be used by, or for the benefit of, the District or its constituents. Consequently, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board statements for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the District. 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, 2010, the Foundation distributed \$168,157 to the District for both restricted and unrestricted purposes. In addition, the District provided \$198,289 of support to the Foundation during the fiscal year. Complete financial statements for the Foundation can be obtained from the Foundation Office, 281 West 24<sup>th</sup> Street, Suite 132, Yuma, Arizona, 85364.

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## B. Basis of Presentation and Accounting

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

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

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

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

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

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

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

The District follows FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The District has chosen the option not to follow FASB statements and interpretations issued after November 30, 1989.

### C. Cash and Investments

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

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

### D. Capital Assets

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

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

	<b>Capitalization Threshold</b>	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Land	\$5,000		
Construction in progress	5,000		
Buildings	5,000	Straight-line	20-40 years
Other improvements	5,000	Straight-line	15 years
Equipment	5,000	Straight-line	5 years
Library books	5,000	Straight-line	10 years

### E. Investment Earnings

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

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## F. Compensated Absences

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

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

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

## G. Scholarship Allowances

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

## Note 2 - Deposits and Investments

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

**Deposits**—At June 30, 2010, the total cash on hand was \$7,450, the carrying amount of the District's deposits was \$3,239,134, and the bank balance was \$3,644,663. The District does not have a policy with respect to custodial credit risk. Of the bank balance, \$255,027 was covered by federal depository insurance and \$3,389,636 was covered by collateral held by the pledging financial institution's trust department with a book-entry in the District's name.

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**Investments**—At June 30, 2010, the District's investments consisted of the following:

	<b>Fair Value</b>
State Treasurer's investment pool	\$27,036,193
County Treasurer's investment pool	13,880,300
Money market mutual funds—U.S. Treasury securities	<u>192,172</u>
Total	<u>\$41,108,665</u>

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. At June 30, 2010, credit risk for the District's investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
State Treasurer's investment pool	Unrated	Not applicable	\$27,036,193
County Treasurer's investment pool	Unrated	Not applicable	13,880,300
Money market mutual funds— U.S. Treasury securities	AAAm	Standard & Poor's	<u>192,172</u>
			<u>\$41,108,665</u>

*Custodial credit risk*—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy with respect to custodial credit risk. At June 30, 2010, the District had \$192,172 of money market mutual funds that were uninsured and held by the counterparty not in the District's name.

*Interest Rate Risk*—As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's policy limits the District's investment portfolio to maturities of less than 1 year. At June 30, 2010, the District had the following investments in debt securities:

<b>Investment Type</b>	<b>Investment Maturities-Less than 1 year</b>
State Treasurer's investment pool	\$27,036,193
County Treasurer's investment pool	13,880,300
Money market mutual funds—U.S. Treasury securities	<u>192,172</u>
Total	<u>\$41,108,665</u>

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

Cash, deposits, and investments:		Statement of Net Assets:	
Cash on hand	\$ 7,450	Cash and cash equivalents	\$44,163,077
Amount of deposits	3,239,134	Restricted assets:	
Amount of investments	<u>41,108,665</u>	Cash and investments held	
		by trustees	<u>192,172</u>
Total	<u>\$44,355,249</u>	Total	<u>\$44,355,249</u>

### Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 543,607			\$ 543,607
Construction in progress	<u>469,473</u>		<u>\$469,473</u>	<u>          </u>
Total capital assets not being depreciated	<u>1,013,080</u>		<u>\$469,473</u>	<u>543,607</u>
Capital assets being depreciated:				
Buildings	100,269,531	\$4,132,900		104,402,431
Equipment	13,377,793	821,772	6,441	14,193,124
Other improvements	20,885,252			20,885,252
Library books	<u>2,057,588</u>	<u>62,088</u>		<u>2,119,676</u>
Total capital assets being depreciated	<u>136,590,164</u>	<u>5,016,760</u>	<u>6,441</u>	<u>141,600,483</u>
Less accumulated depreciation for:				
Buildings	22,638,214	2,336,276		24,974,490
Equipment	9,169,294	1,221,019	4,509	10,385,804
Other improvements	9,398,548	936,667		10,335,215
Library books	<u>1,633,855</u>	<u>86,836</u>		<u>1,720,691</u>
Total accumulated depreciation	<u>42,839,911</u>	<u>4,580,798</u>	<u>4,509</u>	<u>47,416,200</u>
Total capital assets being depreciated, net	<u>93,750,253</u>	<u>435,962</u>	<u>1,932</u>	<u>94,184,283</u>
Capital assets, net	<u>\$ 94,763,333</u>	<u>\$ 435,962</u>	<u>\$471,405</u>	<u>\$ 94,727,890</u>

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Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within 1 year
Compensated absences payable	<u>\$ 1,347,501</u>	<u>\$989,359</u>	<u>\$ 879,253</u>	<u>\$ 1,457,607</u>	<u>\$ 40,230</u>
Bonds payable:					
General obligation bonds	\$73,480,000		\$2,475,000	\$71,005,000	\$2,215,000
Revenue bonds	140,000		70,000	70,000	70,000
Plus bond premiums	448,214		21,372	426,842	20,727
Less deferred amount on refunding	(440)		(440)		
Total long-term debt	<u>\$74,067,774</u>	<u>\$</u>	<u>\$2,565,932</u>	<u>\$71,501,842</u>	<u>\$2,305,727</u>

**Revenue Bonds Payable**—The District's revenue bonds of 1971 were issued to provide monies to acquire, construct, equip, and furnish dormitories, a college union, and District facilities. The bonds are payable solely from special sinking funds that are funded by gross revenues from the operations of District facilities and are payable through July 1, 2010. Annual principal and interest payments on the bonds are expected to require less than 2 percent of revenues. The total principal and interest remaining to be paid on the bonds is \$72,450. Principal and interest paid for the current year and total pledged revenues were \$77,350 and \$5,765,477, respectively. The issue is generally callable and interest is payable semiannually. In accordance with the bond indenture, the required debt service reserve fund has been established and all requirements as of June 30, 2010 have been met.

Revenue bonds outstanding at June 30, 2010, were as follows:

Description	Original Amount	Interest Rates	Maturities	Outstanding Principal
Series A of 1971	\$1,700,000	7%	7/1/10	\$70,000

Revenue bond debt service requirements to maturity are as follows:

	Principal	Interest
Year ending June 30, 2011	<u>\$70,000</u>	<u>\$2,450</u>
Total	<u>\$70,000</u>	<u>\$2,450</u>

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**General Obligation Bonds Payable**—The District's general obligation bonds payable were issued primarily to make certain improvements to the District's educational facilities and finance equipment purchases. 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. The bonds are generally callable with interest payable semiannually.

General obligation bonds outstanding at June 30, 2010, were as follows:

Description	Original Amount	Interest Rates	Maturity Ranges	Outstanding Principal
General obligation refunding bonds—series 2003	\$ 9,845,000	3.0%	7/1/10	\$ 345,000
General obligation bonds—series 2005	20,000,000	3.625-5%	7/1/10-30	18,000,000
General obligation bonds—series 2006	53,850,000	3.75-5%	7/1/10-31	<u>52,660,000</u>
			Total	<u>\$71,005,000</u>

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

Year Ending June 30,	Principal	Interest
2011	\$ 2,215,000	\$ 3,199,607
2012	1,965,000	3,103,731
2013	2,065,000	3,009,447
2014	2,170,000	2,911,409
2015	2,270,000	2,808,244
2016-20	13,200,000	12,194,181
2021-25	16,845,000	8,587,341
2026-30	21,500,000	4,111,441
2031-32	<u>8,775,000</u>	<u>311,578</u>
Total	<u>\$71,005,000</u>	<u>\$40,236,979</u>

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the 2003 general obligation bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the District's financial statements. At June 30, 2010, the following outstanding bonds were considered defeased:

Description	Amount
General obligation—Series of 1993	\$425,000

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Note 5 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. 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, which provides life insurance, accidental death and dismemberment, disability, basic or major medical coverage for accidents or sicknesses, as well as dental and vision insurance coverage to its employees through the Consortium. The Consortium, currently composed of four members, provides benefits up to \$100,000 per individual per calendar year through a self-funding agreement with its participants and purchases commercial insurance to cover claims in excess of this limit. An independent administrator provides the Consortium with claims and recordkeeping services. The District is responsible for paying the premiums, but requires its employees to contribute a portion for dependent coverage. 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 the amount of the District's annual contributions, and once made, releases the District from all further legal obligations of any type. No additional contributions to the Consortium have been made in any of the past 3 fiscal years.

Note 6 - Pension and Other Postemployment Benefits

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

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

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**Funding policy**—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2010, active plan members were required by statute to contribute at the actuarially determined rate of 9.4 percent (9.0 percent retirement and 0.4 percent long-term disability) of the members' annual covered payroll and the District was required by statute to contribute at the actuarially determined rate of 9.4 percent (8.34 percent for retirement, 0.66 percent for health insurance premium, and 0.4 percent for long-term disability) of the members' annual covered payroll.

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

Year ended June 30,	Benefit Retirement Fund	Health Long-Term Supplement Fund	Disability Fund
2010	\$1,659,676	\$131,341	\$79,665
2009	1,517,443	199,122	95,884
2008	1,448,761	189,021	90,019

Note 7 - Operating Expenses

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

Personal services	\$31,800,320
Contract services	4,017,379
Supplies and other services	2,455,599
Communications and utilities	2,330,706
Scholarships	12,627,617
Depreciation	4,580,798
Other	<u>3,132,182</u>
Total	<u>\$60,944,601</u>

Note 8 - Discretely Presented Component Unit

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

**Summary of Significant Accounting Policies**

**Nature of Activities**—Arizona Western College (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.

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

**Basis of Presentation**—The financial statement presentation follows generally accepted accounting principles. Under the principles, the Foundation is required to report information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Unrestricted Net Assets**—Unrestricted net assets are those currently available at the discretion of the board of directors for use in the Foundation's operations, in accordance with its bylaws. The Foundation reports its revenue and other support as unrestricted if there are no donor-imposed restrictions limiting its use.

**Temporarily Restricted**—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 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. As of June 30, 2010, temporarily restricted net assets of \$585,290 are held for scholarships.

**Permanently Restricted**—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. As of June 30, 2010, the Foundation has permanently restricted net assets of \$1,329,420.

**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 designated for long-term investment purposes are included as investments. The Foundation maintains its cash accounts in one financial institution. In the ordinary course of business, the Foundation's cash balances may exceed amounts insured by the federal government.

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Investments—Investments 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.

Contributions Receivable—Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using a discount rate applicable in the year in which the pledge is received. Amortization of the discount is included in contribution revenue. Conditional pledges are not included as support until such time as the conditions are substantially met.

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 buildings and 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, equipment, and vehicles are not capitalized and are recognized on the statement of activities in the fiscal year incurred.

Tax Exempt Status—The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Therefore, no expense has been recognized for income taxes in the accompanying financial statements. The Foundation is not a private foundation and contributions to the Foundation qualify as charitable deductions by the contributor.

Accounting for uncertainty in income taxes recognized in an entity's financial statements prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. These have no impact on the Foundation's financial statements. The Foundation's federal and state tax returns are potentially open to examinations for the years 2006-2009.

### **Investments**

Generally accepted accounting principles establishes 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 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 principle market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

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

**Level 1 investments** use quoted prices in active markets for identical assets that the Foundation has the ability to access. All investments held by the foundation are level 1.

**Level 2 investments** use inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly. The foundation has no such investments.

**Level 3 investments** have observable values for the assets and rely on management's own assumptions that market participants would use in pricing the asset. The Foundation has no such investments. The foundation has no such investments.

The following presents the Foundation's fair value hierarchy for the assets measured at fair value on a recurring basis as of June 30, 2010, classified as level 1 investments:

	<b>Total</b>
Investments	
Equities	\$1,011,974
U.S. Government bonds	380,892
Corporate bonds	264,087
Mutual funds	<u>155,450</u>
Total investments	<u>\$1,812,403</u>

**Contributions Receivable**

Contributions receivable at June 30, 2010, include the following unconditional promises to give:

Unconditional promises to give:	
Amount receivable within 1 year	\$ 57,908
Amount receivable within 1 to 5 years	14,675
Allowance for uncollectible pledges	(15,000)
Discount on pledges (4%)	<u>(600)</u>
Net unconditional promises to give	56,983
Less: Current Portion	<u>(42,908)</u>
Contribution receivables, noncurrent	<u>\$ 14,075</u>

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**Property and Equipment**

Property and equipment as of June 30, 2010, consist of the following:

Land	\$ 254,740
Building and Improvements	1,109,538
Furniture and Equipment	<u>19,782</u>
	1,384,060
Less: accumulated depreciation	<u>(459,040)</u>
Net property and equipment	<u>\$ 925,020</u>

Depreciation expense for the year ended June 30, 2010, was \$41,905.

**Endowments**

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.

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$5,124 as of June 30, 2010, these deficiencies resulted from unfavorable market fluctuations in the endowment funds’ investments and continued appropriations that were deemed prudent by the Board of Directors of the Foundation.

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. Endowments assets include those assets of the donor restricted scholarship funds that the organization must hold in perpetuity.

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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 disbursements.

The Foundation's policy for appropriation on donor-restricted endowments is to approve spending as part of the annual budget process and individual scholarship decisions approved by the Foundation Board of Directors.

The summary of changes in endowment fund balances for the year ended June 30, 2010, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2009	\$(15,521)	\$224,090	\$1,317,187	\$1,525,756
Contributions		-	12,233	12,233
Investment Return:				
Investment Income	-	34,053	-	34,053
Investment Expenses	-	(18,230)	-	(18,230)
Realized gains (losses)	15,521	(10,827)	-	4,694
Unrealized gains (losses)	-	<u>128,858</u>	-	<u>128,858</u>
Total investment return	15,521	133,854	-	149,375
Appropriations	-	<u>(48,218)</u>	-	<u>(48,218)</u>
June 30, 2010	<u>-</u>	<u>\$309,726</u>	<u>\$1,329,420</u>	<u>\$1,639,146</u>

**Concentrations**

The Foundation relies on funding from Arizona Western College to pay a large portion of its operating expenses for services performed by the Foundation. Consequently, the loss of such funding could have a material impact on revenues and the operation of the Foundation unless such revenues were replaced with other sources.

## Supplementary Information

Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
Title IV—College Housing Program	14.CR-AR1Z43(S)		\$ <u>46,526</u>
<b>U.S. Department of the Interior</b>			
Wildland Fire Research and Studies Program	15.232		33,235
Migratory Bird Joint Ventures	15.637		1,557
U.S. Geological Survey—Research and Data Collection	15.808		<u>7,829</u>
Total U.S. Department of the Interior			<u>42,621</u>
<b>U.S. Department of Justice</b>			
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		<u>109,969</u>
<b>U.S. Department of Labor</b>			
WIA Cluster, passed through Yuma Private Industry Council, Inc.			
WIA Adult Program	17.258	DE081302001	368,296
ARRA—WIA Adult Program	17.258	None	<u>9,486</u>
Total WIA Adult Program			<u>377,782</u>
WIA Youth Activities	17.259	DE081302001	443,359
ARRA—WIA Youth Activities	17.259	DE091204001	<u>245,171</u>
Total WIA Youth Activities			<u>688,530</u>
WIA Dislocated Workers	17.260	DE081302001	<u>110,895</u>
Total WIA Cluster			<u>1,177,207</u>
H-1B Job Training Grants, passed through Yuma Private Industry Council, Inc.			
	17.268	11-69-Y-140339-0707	104,279
Community Based Job Training Grants, passed through Yuma Private Industry Council, Inc.			
	17.269	11-69-Y-140339-0707	<u>10,439</u>
Total U.S. Department of Labor			<u>1,291,925</u>
<b>National Science Foundation</b>			
Engineering Grants	47.041		7,656
Engineering Grants, passed through Arizona State University	47.041	09-163	<u>1,099</u>
Total Engineering Grants			<u>8,755</u>

(Continued)

See accompanying notes to schedule.

Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2010  
 (Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Education and Human Resources	47.076		\$ 156,604
Total National Science Foundation			<u>165,359</u>
<b>U.S. Small Business Administration</b>			
Small Business Development Centers, passed through Maricopa County Community College District	59.037	9-603001-Z-0003-17, 0-603001-Z-0003-18	<u>86,201</u>
<b>U.S. Department of Education</b>			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		237,105
Federal Family Education Loans	84.032		3,115,523
Federal Work-Study Program	84.033		325,432
Federal Pell Grant Program	84.063		17,247,573
Federal Direct Student Loans	84.268		120,475
Academic Competitiveness Grants	84.375		<u>47,000</u>
Total Student Financial Assistance Cluster			<u>21,093,108</u>
TRIO Cluster:			
TRIO—Student Support Services	84.042		345,628
TRIO—Talent Search	84.044		235,421
TRIO—Upward Bound	84.047		<u>274,134</u>
Total TRIO Cluster			<u>855,183</u>
Higher Education—Institutional Aid	84.031		2,859,328
Career and Technical Education—Basic Grants to States, passed through the Arizona Department of Education	84.048	09FCTDBG-970521-01A, 10FCTDBG-070521-02A	216,421
Leveraging Educational Assistance Partnership, passed through the Arizona Commission for Postsecondary Education	84.069	None	15,888
Tech-Prep Education, passed through the Arizona Department of Education	84.243	09FCTDTP-970521-02A, 10FCTDTP-070521-01A	112,114
Mathematics and Science Partnerships, passed through Parker Unified School District	84.366	08FSDMPI-860662-19A	2,250

(Continued)

See accompanying notes to schedule.

Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2010  
 (Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
College Access Challenge Grant Program, passed through the Arizona Commission for Postsecondary Education	84.378	None	\$ 5,500
ARRA—State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act, passed through the Arizona Governor's Office of Economic Recovery	84.394	GOER-IGA-FY2010-1022	<u>543,334</u>
Total U.S. Department of Education			<u>25,703,126</u>
Total Expenditures of Federal Awards			<u>\$ 27,445,727</u>

See accompanying notes to schedule.

Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2010

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 2010 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used.

Note 3 - Loans Outstanding

The expenditures reported on the Schedule of Expenditures of Federal Awards for certain programs excluded loan balances outstanding at June 30, 2010, for the Federal Perkins Loan Program—Federal Capital Contributions, CFDA 84.038 of \$8,774.

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report 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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 13, 2010. Our report was modified to include a reference to our reliance on 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. Other auditors 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. The financial statements of the Arizona Western College Foundation were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 10-01, 10-02, and 10-03 to be material weaknesses.

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 10-04 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 of 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 and those of the other auditors 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 responses to the findings identified in our audit are presented on pages 41 through 46. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Debbie Davenport  
Auditor General

December 13, 2010



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance with Requirements That  
Could Have a Direct and Material Effect on Each Major Program and on  
Internal Control over Compliance in Accordance with OMB Circular A-133

Members of the Arizona State Legislature

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

### Compliance

We have audited Yuma/La Paz Counties Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in item 10-101 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding the Davis-Bacon Act that are applicable to its Higher Education—Institutional Aid program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Yuma/La Paz Counties Community College District did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the Higher Education—Institutional Aid program. Also, in our opinion, Yuma/La Paz Counties Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying Schedule of Findings and Questioned Costs as items 10-102 and 10-103.

## Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 10-101 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-102 and 10-103 to be significant deficiencies.

Yuma/La Paz Counties Community College District's responses to the findings identified in our audit are presented on pages 41 through 46. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Debbie Davenport  
Auditor General

December 13, 2010

Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2010

**Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued:		Unqualified	
		<b>Yes</b>	<b>No</b>
Internal control over financial reporting:			
Material weaknesses identified?	<u>X</u>	___	
Significant deficiencies identified?	<u>X</u>	___	
Noncompliance material to the financial statements noted?	___	<u>X</u>	

***Federal Awards***

Internal control over major programs:			
Material weaknesses identified?	<u>X</u>	___	
Significant deficiencies identified?	<u>X</u>	___	
Type of auditors' report issued on compliance for major programs: Unqualified for all major programs except for the Higher Education—Institutional Aid program, for which an adverse opinion was issued.			
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?			
	<u>X</u>	___	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	WIA Cluster:
17.258	WIA Adult Program
17.258	ARRA—WIA Adult Program
17.259	WIA Youth Activities
17.259	ARRA—WIA Youth Activities
17.260	WIA Dislocated Workers
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.032	Federal Family Education Loans
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program

Yuma/La Paz Counties Community College District  
 (Arizona Western College)  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2010

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.268	Federal Direct Student Loans
84.375	Academic Competitiveness Grants
84.031	Higher Education—Institutional Aid
	TRIO Cluster:
84.042	TRIO—Student Support Services
84.044	TRIO—Talent Search
84.047	TRIO—Upward Bound

Dollar threshold used to distinguish between Type A and Type B programs: \$ 726,292

**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   \_\_\_\_\_

Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

## Financial Statement Findings

10-01

### **The District should strengthen access controls for its general ledger accounting system**

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

Condition and context: The District did not have adequate internal controls over logical access to its general ledger accounting system. Specifically, for 7 of 20 employees tested, the District did not maintain documentation authorizing the employee's system access rights. For the remaining 13 employees tested, auditors were unable to determine whether the employee's system access was compatible with the employee's job responsibilities. In addition, the District did not monitor employees who had unlimited system access or restrict this access to only those essential individuals needing it. While the activities of employees with unlimited system access was logged by the system, these individuals also had the ability to access and change the log.

Effect: There is an increased risk of theft, manipulation, or misuse of financial, sensitive, or confidential information by unauthorized users or by users who were not properly being monitored. This finding is a material weakness in internal control over financial reporting.

Cause: The District did not have written policies and procedures for granting logical access to its general ledger accounting system. In addition, the District had not dedicated financial resources to develop formal logical access controls and monitor the activities of those employees with unlimited system access.

Recommendation: The District should establish and implement policies and procedures to help strengthen system access controls. These policies and procedures should include the following:

- Develop a standardized form to document that all access requests contain sufficient information for assigning the appropriate level of system access rights that is compatible with an employee's current job responsibilities. Requests for system access should be approved by the employee's supervisor.
- Periodically perform a comprehensive review of all existing system users to ensure that access is granted to current employees for access rights that are compatible with their job responsibilities.
- Restrict unlimited system access to only those individuals who need that level of access.
- Maintain a log to track the activities of employees with unlimited system access that cannot be altered. This log should be independently monitored and reviewed.

10-02

### **The District should establish change management controls for its general ledger accounting system**

Criteria: Changes to the District's computerized general ledger accounting system should be documented, authorized, tested, reviewed and approved prior to implementation, and reviewed against

Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

planned outcomes following implementation. Effective change management controls should ensure that program changes and changes to data are valid, meet user needs, and are subject to review and independent approval.

Condition and context: The District did not have policies and procedures in place to ensure that all system changes were properly documented, authorized, tested, and reviewed and approved prior to implementation. Also, changes to the District's system were initiated and recorded through multiple sources, including through e-mail. As a result, the District was not able to effectively track the changes made to its system and could not ensure that all changes were documented, authorized, tested, reviewed and approved prior to putting the changes into use. In addition, the District did not ensure that the responsibilities for making changes to the system were adequately separated so that no one person had complete control over the process.

Effect: The District is exposed to the risk of unauthorized changes and changes not correctly applied to its general ledger accounting system. This finding is a material weakness in internal control over financial reporting.

Cause: The District did not have written policies and procedures for making and tracking program changes to its general ledger accounting system.

Recommendation: The District should establish and implement policies and procedures for controlling all changes made to its general ledger accounting system. The District should require all changes to its system be documented, authorized, tested, reviewed and approved prior to implementation, and reviewed against planned outcomes following implementation. In addition, the responsibilities for developing and implementing changes to the system should be adequately separated from the responsibilities of authorizing, testing, and approving the changes.

10-03

**The District should develop and test a disaster recovery plan for its computer system**

Criteria: It is critical that the District have an up-to-date contingency plan in place to provide for the continuity of operations and to ensure that electronic data files can be recovered in the event of a system or equipment failure or other system interruption.

Condition and context: The District uses a computer system to process and store financial and student information that is vital to its daily operations. However, the District did not have a disaster recovery plan for its computerized information systems.

Effect: The District risks the ability to recover financial and student information and conduct daily operations in the event of a system or equipment failure or other system interruption. This finding is a material weakness in internal control over financial reporting.

Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

Cause: The District lacked an understanding of the priority of an updated and tested disaster recovery plan.

Recommendation: To help ensure the continuity of the district operations in the event of a system or equipment failure or other system interruption, the District should develop and implement a disaster recovery plan that includes the following policies and procedures:

- Perform a risk analysis identifying and prioritizing the critical applications to determine which applications should be recovered first.
- Communicate and distribute a copy of the disaster recovery plan to all affected employees.
- Maintain a copy of the disaster recovery plan off-site.
- Make arrangements for a designated physical recovery facility.
- Make arrangements with vendors to support hardware and software requirements.
- List procedures for processing critical applications.
- Test and document the plan annually and update the plan for any problems noted.

10-04

**The District should have effective payroll policies and procedures for hourly employees**

Criteria: The District should have effective payroll policies and procedures in place to ensure that hourly employees are paid based on the actual number of hours worked each pay period according to the employee's time attendance records.

Condition and context: For 7 of 54 payroll transactions tested, hourly employees were overpaid for time that was not worked according to the employees' approved time sheets. For one of these transactions, auditors noted that the payroll department adjusted the employee's time sheet for time that the employee did not work after the time sheet had been approved by the employee's supervisor.

Effect: The District may have overpaid an estimated \$28,900 to employees for hours not worked. This finding is a significant deficiency in internal control over financial reporting.

Cause: The District's hourly employees who work a 4-day week were contracted for 1,950 hours annually, or 75 hours each pay period. According to the District's policy and the employees' time sheets, the employees were required to work only 74 hours each pay period and may have recorded only 74 hours worked on their time sheets; however, they were paid for 75 hours each pay period. Auditors were informed that this particular practice has been in place at the District for more than 20 years.

Recommendation: The District should improve its existing policies and procedures for processing payroll for hourly employees to ensure that employees are paid for actual hours worked as recorded on employees' time sheets. Additionally, all time sheet adjustments should be reviewed and approved by the employee's supervisor.

Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

Federal Award Findings and Questioned Costs

10-101

CFDA No.: 84.031 **Higher Education—Institutional Aid**

**U.S. Department of Education**

Award Year: October 1, 2008 through September 30, 2010

Award Number: P031C080124-09A

Davis-Bacon Act

Questioned Cost: Unknown

Criteria: To comply with the District's grant agreement and the Davis-Bacon Act, as set forth in 20 United States Code (USC) §1232(b), the District must require all contractors and subcontractors who are awarded more than \$2,000 in federal monies for construction and minor remodeling projects to pay wages at least equal to rates prevailing for similar projects in the area, as determined by the U.S. Secretary of Labor.

Condition: The District spent \$2.8 million in program monies during the year, the majority of which was used to construct and renovate school facilities. The District was required to comply with Davis-Bacon Act requirements; however, it paid contractors and subcontractors approximately \$1.7 million during the year for construction projects without ensuring that the contractors and subcontractors paid prevailing wages.

Effect: The District did not prepare documentation to demonstrate that it had complied with Davis-Bacon Act requirements. It was not practical to extend our auditing procedures to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with Davis-Bacon Act requirements.

Cause: The District consulted its attorneys and believed that the Davis-Bacon Act requirements were not applicable to the program.

Recommendation: To help ensure that the District complies with its grant agreement and Davis-Bacon Act requirements, it should require contractors and subcontractors that are awarded federal monies exceeding \$2,000 to pay employees the prevailing wage rates established by the U.S. Department of Labor. To accomplish this, the District should request and review contractors' and subcontractors' payroll certification reports to verify that prevailing wages were paid. If the District determines that the contractors or subcontractors did not pay prevailing wages or if the District does not receive payroll certification reports, it should withhold payment until the requirements are met.

Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

10-102

CFDA No.: 84.031 **Higher Education—Institutional Aid**

**U.S. Department of Education**

Award Year: October 1, 2008 through September 30, 2010

Award Number: P031C080124-09A

Procurement and Suspension and Debarment

Questioned Cost: None

Criteria: To comply with 34 Code of Federal Regulations (CFR) §74.46, the District should maintain procurement records and files supporting the basis for the contractor selected, justification for lack of competition when competitive bids or offers were not obtained, and the basis for award cost or price. In addition, the District should have internal controls to ensure that contracts and subawards over \$25,000 were not made to an entity that had been suspended or debarred from doing business with the federal government to comply with 34 CFR §74.13.

Condition: The District used another governmental entity's contract to purchase approximately \$140,000 of computer equipment for the program. However, the District did not maintain documentation of the contract selection process or perform due-diligence procedures to verify that the other entity used purchasing policies and procedures that were consistent with the District's. In addition, the District did not verify that the contractor had not been suspended or debarred from doing business with the federal government.

Effect: The District may have used a contract that did not comply with the District's purchasing policies and may have awarded federal monies to a contractor who was suspended or debarred. Auditors extended auditing procedures and determined that the contractor was not suspended or debarred; therefore, no questioned costs were noted. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's requirements for procurement and suspension and debarment. This finding has the potential to affect other federal programs administered by the District.

Cause: The District was not aware that it should have performed and documented due diligence procedures on other entities' contracts it used.

Recommendation: The District should perform and document due-diligence procedures for at least a sample of other entities' contracts it uses. In addition, the District should implement internal controls for ensuring that contracts and subawards equal to or exceeding \$25,000 are made to parties that have not been suspended or debarred from doing business with the federal government. This verification may be accomplished by checking the Excluded Parties List System maintained by the U.S. General Services Administration.

Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

10-103

**Trio Cluster:**

CFDA No.: 84.042 TRIO—Student Support Services

84.044 TRIO—Talent Search

84.047 TRIO—Upward Bound

**U.S. Department of Education**

Award Year: September 1, 2005 through August 31, 2011

Award Number: #s P042A051002-07, P042A51002-08, P042A015002-09, P044A080344-08,  
P044A080344-09, P047A070424-08, and P047A070424-09

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Questioned Cost: \$541

**Criteria:** The District should have effective policies and procedures to ensure that payroll charges to federal programs are properly supported by records that represent actual hours worked for federal programs. In addition, 2 CFR §220, Appendix A, Attachment C, §J(10), requires that all payments to employees be supported by documents, such as time sheets, and agree to the District's payroll records.

**Condition:** As described in finding 10-04, the District did not have adequate internal controls to ensure that all hourly employees were accurately paid for actual time worked. During the fiscal year, the District paid four hourly employees for hours ranging from 4 to 22 hours, which were not worked but were charged to the federal program cluster.

**Effect:** The District overpaid hourly employees working for the Cluster a total of \$541 for the fiscal year. Auditors also confirmed with the District that hourly employees working for the Cluster had been overpaid in prior years. However, it was not practical to extend our auditing procedures sufficiently to determine the amount of questioned costs, if any, that may have resulted from this finding related to the prior years. This finding also has the potential to affect other federal programs administered by the District. This finding is a significant deficiency in internal control over compliance and an instance of noncompliance with the Cluster's requirements for activities allowed or unallowed and allowable costs/cost principles.

**Cause:** As described in finding 10-04, the District has had a practice in place for more than 20 years to pay certain hourly employees for 75 hours each pay period while requiring them to work only 74 hours because the employees worked a 4-day week.

**Recommendation:** To help ensure that federal programs are charged only for actual hours worked by its employees, the District should improve its internal controls over payroll and pay all hourly employees based on actual hours worked as reflected on time records.



November 29, 2010

Ms. Debbie Davenport, Auditor General  
State of Arizona, Office of the Auditor General  
2910 North 44<sup>th</sup> 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 names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Daniel D. Hann  
Vice President for Administrative Services

kmv

Yuma/La Paz Counties Community College District  
Corrective Action Plan  
Year Ended June 30, 2010

## Financial Statement Findings

10-01

**The District should strengthen access controls to its general ledger accounting system**

Contact person: Paul Neuman, Vice President for Information Technology

Anticipated Completion Date: May 1, 2011

Corrective Action Plan: Concur.

### Corrective Actions Undertaken:

AWC has implemented a process that performs the following actions on Datatel user accounts that have not been accessed for more than 120 days:

- Removes any assigned Security Classes from the user's Datatel account and assigns the "NO.UT.ACCESS" class, which blocks access to any Datatel screen not explicitly assigned
- Randomizes the user's Envision password and sets the expiration date for the password 1 day in the past within Datatel. This prevents the user from being able to log in to Datatel.
- Performs a password lock on the user's Unix level account on Indigo, the server that hosts the Datatel application.
- Generates an email that is sent to the AWC Help Desk that lists:
  - The user ID deactivated
  - The date the user ID last logged on to Datatel
  - The Security Classes that had previously been assigned to the user ID

The process is scheduled to run nightly and has been active since August 2<sup>nd</sup>, 2010.

The first run of the process on August 2<sup>nd</sup> resulted in 655 accounts that had not been accessed since May 1<sup>st</sup>, 2010 being deactivated and locked.

AWC has implemented a process to update each Datatel user account with a STAFF record allowing us to better identify user accounts by linking their username with their unique employee ID, as well as assign them a classification and status. The staff record consists of the following information:

- Staff Code: the user's username (also known as a NetID)
- Operator ID: the user's username (NetID)
- Staff Type: P/A (Professional/Administrative), Faculty, Staff, and Volunteer
- Staff Status: Current or Former

As of August 3<sup>rd</sup>, all user accounts in Datatel have been assigned a STAFF record with all deactivated and locked accounts given a staff status of 'Former'. All newly created user accounts will be created with a STAFF record.

Yuma/La Paz Counties Community College District  
Corrective Action Plan  
Year Ended June 30, 2010

**Corrective Actions Planned:**

AWC shall develop policies and procedures modeled on the *State of Arizona GITA Standard P800-S810 Rev 2.0, Account Management Standard*, that govern the process by which access to Datatel is requested, approved, granted, and rescinded. These procedures shall include, but not be limited to, the following:

- AWC shall move to a Role Based Access Control (RBAC) model for the assignment of Security Classes and Screen Access in Datatel to ensure that a user is granted only the access needed to perform the functions of their current job responsibilities.
- All requests for access to Datatel will require the use of a standardized request form that shall require the user and the user's supervisor to supply all information necessary to determine the requestor's role with the college so that an appropriate level of access can be granted.
- All requests for access to Datatel will require the approval of the requestor's supervisor.
- Changes to a user's employment status or job assignment will prompt the following actions:
  - Termination: All access to Datatel will be removed from the user's account.
  - Reassignment: Access to Security Classes and Screens related to the user's former position will be removed. User will be required to submit a request to be granted access to those Security Classes and Screens assigned to the user's new role. The user's new supervisor will be required to approve the request.
- A review of all Datatel user accounts will be performed on a periodic basis to ensure that access granted to the user is consistent with the user's assigned role and job responsibilities.

AWC shall perform a comprehensive review of all active Datatel user accounts to ensure that currently assigned access is consistent with the user's current job responsibilities, and to gather information that will be used to formulate a series of Security Classes that are consistent with a Role Based Access Control model. New account request forms will be required for each user, along with authorization from the user's supervisor in an effort to ensure that proper and complete documentation concerning each Datatel user is available.

AWC shall perform a review of all Datatel administrative level accounts and ensure that only those users who require that level of access are granted it.

AWC shall investigate mechanisms that would allow for the maintenance of a log that tracks the use of administrative level access on the Datatel system in an unalterable form that can be reviewed by someone not involved in the administration of the system and implement a solution if available.

Yuma/La Paz Counties Community College District  
Corrective Action Plan  
Year Ended June 30, 2010

10-02

**The District should establish change management controls for its general ledger accounting system**

Contact person: Paul Neuman, Vice President for Information Technology

Anticipated Completion Date: May 1, 2011

Corrective Action Plan: Concur.

**Corrective Actions Planned:**

AWC shall develop policies and procedures that will govern the change management process for the Datatel system. The policies and procedures will be formulated on established information technology change management best-practices. These procedures shall include, but not be limited to, the following:

- Establish a process by which change requests to the Datatel system are authorized
- Establish the requirement that a change is tested in a non-production environment
- Establish the process by which the change is reviewed and approved for implementation in the production environment
- Establish the requirement that all changes to the Datatel system be documented
- Establish an adequate separation in duties between the responsibilities for developing and implementing the changes and those of authorizing, testing, and approving the changes

10-03

**The District should develop and test a disaster recovery plan for its computer system**

Contact person: Paul Neuman, Vice President for Information Technology

Anticipated Completion Date: March 1, 2011

Corrective Action Plan: Concur.

**Corrective Actions Undertaken:**

AWC is in the process of developing a Business Continuity/Disaster Recovery plan. The development of the plan is guided by the following policy statement:

- The college shall develop a comprehensive business continuity and IT disaster recovery plan.
- A formal risk assessment shall be undertaken to determine the requirements for the AWC BC/DR plan.
- The AWC BC/DR plan will cover all essential and critical infrastructure elements, systems and networks, in accordance with key business activities.
- The AWC BC/DR plan will be periodically tested in a simulated environment to ensure that it can be implemented in emergency situations and that the management and staff understand their roles in the process.
- All staff must be made aware of the AWC BC/DR plan and their own respective roles.
- The AWC BC/DR plan is to be kept up to date to take into account changing circumstances.

Yuma/La Paz Counties Community College District  
Corrective Action Plan  
Year Ended June 30, 2010

Meetings have already taken place and the Business Continuity/Disaster Recovery plan is being developed in concert with key business process owners. A first draft of the plan is near completion and outlines detailed processes as recommended by the auditors. Once completed, copies of the plan will be maintained off-site as well as distributed to all affected employees.

**Corrective Actions Planned:**

AWC is in the early stages of making arrangements to designate the AWC Entrepreneurial Center, located approximately 8 miles from the main AWC campus as a physical recovery facility and prepare it for use as such.

AWC shall make arrangements with vendors to support the hardware and software applications that are determined to be critical to the business continuity of the College. To the extent financially feasible, the AWC Entrepreneurial Center will be prepared as a disaster recovery hot site.

AWC will develop policies and procedures for the testing and documentation of the AWC BC/DR plan on an annual basis. The plan will be updated based upon the feedback of the testing process.

10-04

**The District should have effective payroll policies and procedures for hourly employees**

Contact person: Dan Hann, Vice President for Administrative Services

Anticipated Completion Date: January 1, 2011

Corrective Action Plan: Concur.

**Corrective Actions Planned:**

The District will correct policies and procedures to ensure that hourly employees are paid based on the actual number of hours worked each pay period according to the employee's time attendance records. In addition, all time sheet adjustments will be reviewed and approved by the employee's supervisor, or someone with knowledge of the actual hours worked who is independent of payroll processing.

Yuma/La Paz Counties Community College District  
Corrective Action Plan  
Year Ended June 30, 2010

Federal Award Findings and Questioned Costs

10-101

**CFDA No. 84.031 Higher Education—Institutional Aid**

Contact person: Dan Hann, Vice President for Administrative Services

Completion Date: July 1, 2010

**Corrective Actions Planned:**

The District will comply with the Davis-Bacon Act for all future contracts and require all contractors and subcontractors who are awarded more than \$2,000 in federal funds for construction and minor remodeling projects to pay wages at rates not less than those prevailing for similar projects in the locality, as determined by the Secretary of Labor.

10-102

**CFDA No. 84.031 Higher Education—Institutional Aid**

Contact person: Dan Hann, Vice President for Administrative Services

Anticipated Completion Date: March 1, 2011

**Corrective Actions Planned:**

The Director of Purchasing will maintain documentation to demonstrate due diligence procedures were followed in awarding contracts through other group purchasing cooperatives, that are consistent with the District's policies and procedures. In addition, the Director of Purchasing will maintain documentation confirming that no contracts or subawards over \$25,000 will be made to entities that have been suspended or debarred from doing business with the federal government.

10-103

**CFDA No. 84.042 TRIO-Student Support Services**

**84.044 TRIO-Talent Search**

**84.047 TRIO-Upward Bound**

Contact person: Dan Hann, Vice President for Administrative Services

Anticipated Completion Date: January 1, 2011

**Corrective Actions Planned:**

Questionable costs of \$541 returned to the TRIO programs. The District will correct policies and procedures to ensure that payroll charges to federal programs are properly supported by records and represent actual hours worked for the program. In addition, all payments to employees will be supported by documents, such as time sheets and agree to the District's payroll records.



November 22, 2010

Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

Daniel D. Hann  
Vice President for Administrative Services

kmv

Yuma/La Paz Counties Community College District  
(Arizona Western College)  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2010

Status of Federal Award Findings and Questioned Costs

CFDA No. 84.042 Name of Program: Trio Cluster – Student Support Services  
Finding No.: 09-1  
Status: Fully Corrected

CFDA No. 84.063 Name of Program: Federal Pell Grant Program  
Finding No. 09-2  
Status: Fully Corrected

CFDA No. Name of Program: Student Financial Assistance Cluster  
Finding No. 09-3  
Status: Fully Corrected

CFDA No. Name of Program: Student Financial Assistance Cluster  
Finding No. 09-4  
Status: Fully Corrected

CFDA No. 84.033 Name of Program: Federal Work-Study Program  
Finding No. 09-5  
Status: Fully Corrected

CFDA No. 84.375 Name of Program: Academic Competiveness Grant  
Finding No. 09-6  
Status: Fully Corrected

CFDA No. 84.032 Name of Program: Federal Family Education Loan Program  
Finding No. 09-7  
Status: Fully Corrected

CFDA No. 84.375 Name of Program: Academic Competiveness Grant  
Finding No. 09-8  
Status: Fully Corrected