

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

Annual Financial Report and
Single Audit Report

Year Ended June 30, 2016



A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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ANNUAL FINANCIAL REPORT



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

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

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Yuma/La Paz Counties Community College District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Yuma/La Paz Counties Community College District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2016, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other matters

Required supplementary information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-6, schedule of the District's proportionate share of the net pension liability on page 30, and schedule of district pension contributions on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information—schedule of expenditures of federal awards

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

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

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Debbie Davenport
Auditor General

December 9, 2016



Yuma/La Paz Counties Community College District

(Arizona Western College)

Management's discussion and analysis

Year ended June 30, 2016

This discussion and analysis of the District's financial performance was prepared by the District's management and provides an overview of the District's financial activities for the year ended June 30, 2016. Please read it in conjunction with the District's basic financial statements, which immediately follow.

Basic financial statements

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

The Statement of Net Position reflects the financial position of the District at June 30, 2016. It shows the various assets owned or controlled, outflows of resources applicable to future reporting periods, related liabilities and other obligations, inflows of resources applicable to future reporting periods, and the various categories of net position. Net position is an accounting concept defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, and as such, represents institutional equity or ownership in the District's total assets. Over time, increases or decreases in net position may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position reflects the results of operations and other changes for the year ended June 30, 2016. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net position amount to the ending net position amount, which is shown on the Statement of Net Position described above.

The Statement of Cash Flows presents the inflows and outflows of cash and cash equivalents for the year ended June 30, 2016. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Position described above. In addition, this statement reconciles cash flows from operating activities to operating income/loss on the Statement of Revenues, Expenses and Changes in Net Position described above.

This document's primary focus is on the results of activity for the fiscal year ended June 30, 2016. This Management's Discussion and Analysis (MD&A) uses prior fiscal year information for comparison purposes and illustrates where the District's financial performance may have changed.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's discussion and analysis
Year ended June 30, 2016

Condensed financial information

Net position—primary government
As of June 30

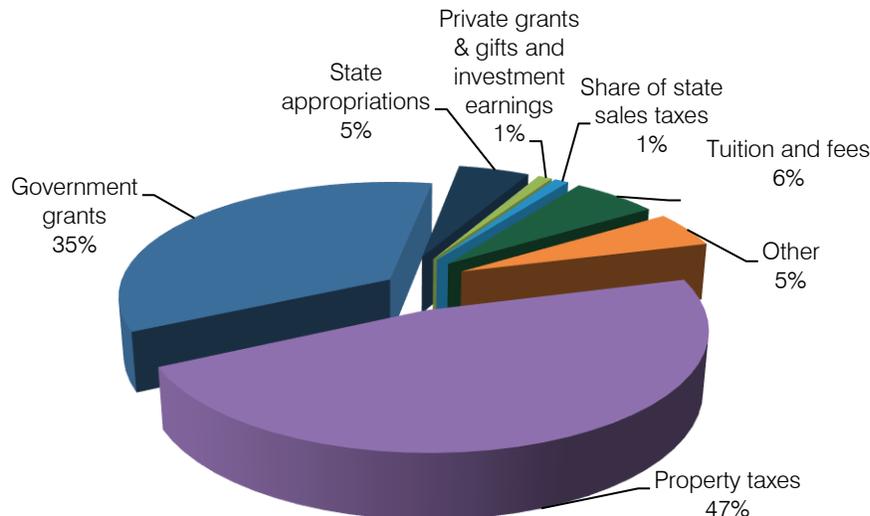
	<u>2016</u>	<u>2015</u>
Assets:		
Current assets	\$ 39,914,041	\$ 38,804,277
Noncurrent assets, other than capital assets	384,491	331,747
Capital assets, net	<u>86,700,553</u>	<u>86,038,115</u>
Total assets	<u>126,999,085</u>	<u>125,174,139</u>
Deferred outflows of resources:	<u>7,833,673</u>	<u>8,765,119</u>
Liabilities:		
Other liabilities	5,095,662	5,180,998
Long-term liabilities	<u>103,575,227</u>	<u>103,809,333</u>
Total liabilities	<u>108,670,889</u>	<u>108,990,331</u>
Deferred inflows of resources:	<u>3,396,196</u>	<u>6,551,191</u>
Net Position:		
Net investment in capital assets	27,758,380	24,349,042
Restricted	5,436,398	5,626,625
Unrestricted	<u>(10,429,105)</u>	<u>(11,577,931)</u>
Total net position	<u>\$ 22,765,673</u>	<u>\$ 18,397,736</u>

**Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's discussion and analysis
Year ended June 30, 2016**

**Changes in net position—primary government
For the year ended June 30**

	2016	2015
Revenues		
Operating		
Tuition and fees (net of scholarship allowances)	\$ 4,352,168	\$ 3,902,496
Other (net of scholarship allowances)	3,560,531	3,345,202
Nonoperating		
Property taxes	34,036,870	31,572,478
State appropriations	3,569,800	3,609,100
Government grants	24,778,860	23,399,162
Share of state sales taxes	884,436	843,061
Private grants and gifts	672,589	629,574
Investment earnings	173,475	175,017
Other nonoperating revenues	153,280	-
Capital grants and gifts	<u>1,603</u>	<u>52,301</u>
Total revenues	<u>72,183,612</u>	<u>67,528,391</u>
Expenses		
Operating	65,116,279	64,363,655
Nonoperating	<u>2,699,396</u>	<u>3,153,430</u>
Total expenses	<u>67,815,675</u>	<u>67,517,085</u>
Increase in net position	4,367,937	11,306
Total net position, July 1	<u>18,397,736</u>	<u>18,386,430</u>
Total net position, June 30	<u>\$22,765,673</u>	<u>\$18,397,736</u>

Percent of 2016 Revenues by Source

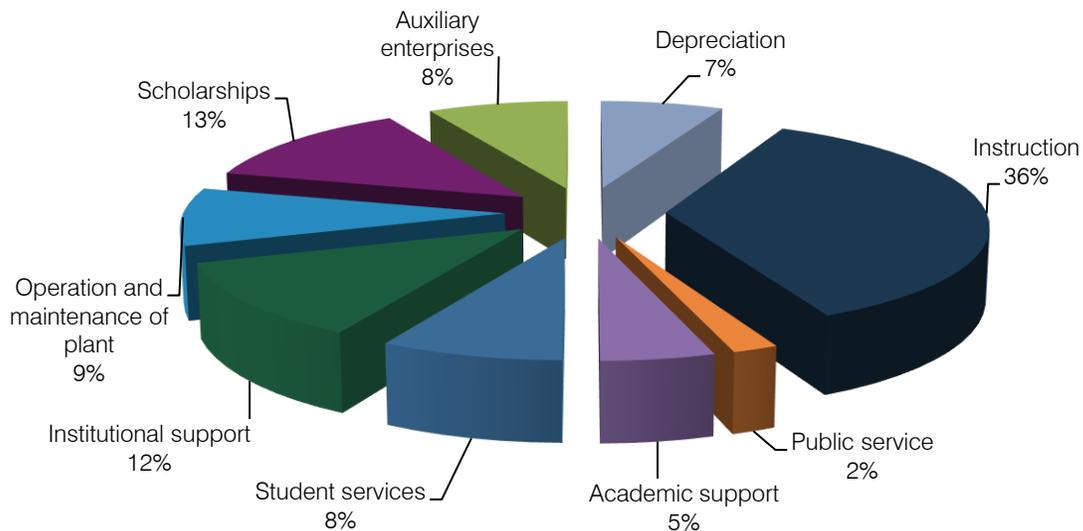


**Yuma/La Paz Counties Community College District
(Arizona Western College)
Management's discussion and analysis
Year ended June 30, 2016**

**Expenses by category—primary government
For the year ended June 30**

	<u>2016</u>	<u>2015</u>
Operating expenses		
Educational and general:		
Instruction	\$23,242,737	\$22,631,703
Public service	1,080,513	1,012,786
Academic support	3,369,829	3,160,738
Student services	5,457,449	5,382,598
Institutional support	8,212,935	8,260,170
Operation and maintenance of plant	5,620,369	5,355,143
Scholarships	8,551,790	9,146,579
Auxiliary enterprises	5,136,214	5,019,094
Depreciation	<u>4,444,443</u>	<u>4,394,844</u>
Total operating expenses	<u>65,116,279</u>	<u>64,363,655</u>
Nonoperating expenses		
Interest expense on debt	2,696,729	2,815,665
Other nonoperating expenses	0	328,615
Loss on disposal of capital assets	<u>2,667</u>	<u>9,150</u>
Total nonoperating expenses	<u>2,699,396</u>	<u>3,153,430</u>
Total expenses	<u>\$67,815,675</u>	<u>\$67,517,085</u>

Percent of 2016 Operating Expenses by Category



Yuma/La Paz Counties Community College District

(Arizona Western College)

Management's discussion and analysis

Year ended June 30, 2016

Financial highlights and analysis

Financial position

The District's overall financial position improved in 2016. Total assets and deferred outflows of resources increased by \$900,000 from fiscal year 2015 to fiscal year 2016. This increase is primarily due to an increase in current assets of \$1.1 million, an increase in capital assets of \$700,000, and a decrease in deferred outflows of \$900,000.

Total liabilities and deferred inflows of resources decreased by \$3.5 million. This decrease is due to a decrease in other liabilities for accounts payable and accrued payroll of \$100,000, a decrease in employee absences payable of \$200,000 due to the number of long-term employees retiring, a decrease in long-term debt of \$2.8 million due to the paying down of general obligation bonds, an increase in net pension liability of \$2.8 million, and a decrease in deferred inflows related to pensions of \$3.2 million due to actuarial adjustments.

Total net position for the District improved from fiscal year 2015 to fiscal year 2016 with an increase of \$4.4 million. By net position category there was an increase in net investment in capital assets of \$3.4 million due to the completion of construction projects and the purchase of related equipment, a decrease in restricted assets of \$200,000 due to several large grant funded projects ending, and an increase in unrestricted net position of \$1.2 million due to ASRS actuarial adjustments. The changes in net position are due to several construction projects being completed, an increase in capital assets being depreciated, net of accumulated depreciation, and a decrease in outstanding general obligation bonds.

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

Results of operations

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

For fiscal year 2016 the District's total revenues and capital gifts increased by \$4.7 million from fiscal year 2015. The following revenue sources make up a significant portion of this total increase:

- Tuition and fees increased by \$450,000 primarily because of the in-state and out-of-state tuition increases.
- Other operating revenues increased by \$215,000 primarily because of the solar rebate received from APS.
- Government grants increased by \$1.4 million because of the timing of grants, which are primarily reimbursement based.
- Property taxes increased by \$2.5 million primarily because of increased valuations and increased new construction.
- State appropriations decreased by \$40,000 because of decreased state aid.

Other nonoperating revenues increased by \$150,000 primarily because of amortization of bond premiums.

Yuma/La Paz Counties Community College District

(Arizona Western College)

Management's discussion and analysis

Year ended June 30, 2016

Total operating expenses increased by \$753,000 from fiscal year 2015 to fiscal year 2016. This reflects a \$611,000 increase in instruction, \$68,000 increase in public service, \$209,000 increase in academic support, \$75,000 increase in student services, \$265,000 increase in operations and maintenance, \$117,000 increase in auxiliary enterprises, \$50,000 increase in depreciation, \$595,000 decrease in scholarships, and \$47,000 decrease in institutional support. Many of these increases were due to the increased cost of general operations, which includes salary increases. The decreases are the result of an effort to reduce utility costs, delay in personnel replacement, and more efficient operations. Scholarships decreased due to a decrease in Pell Grant awarding.

Other nonoperating expenses decreased by \$329,000 primarily because of decreases in bond issuance costs and costs associated with the finalization of the Perkins Loan program in the prior year.

Capital assets and debt administration

The District's capital assets, net of accumulated depreciation, totaled \$86.7 million as of June 30, 2016. Capital assets include land, buildings, improvements other than buildings, equipment, and library books. Additional information on capital assets can be found in detail in Note 3 and Note 4 to the District's basic financial statements.

At June 30, 2016, the District had three general obligation bond issues totaling approximately \$57 million. Additional information on the District's long-term debt can be found in Note 5 to the basic financial statements.

Current factors having probable future financial significance

Voters passed Proposition 301 at the general election on November 7, 2000. The proposition increased the state transaction privilege tax rate six-tenths of 1 percent for 20 years. This increase was to be used for education from K-12 through higher education. Community colleges are to use the funds for workforce development activities. Fiscal year 2016 was the 15th year of this funding, and the District received approximately \$884,000. It is anticipated that the District will continue to receive at least this amount for the next 5 years.

Subsequent to the year ended June 30, 2016, the District refinanced \$10,895,000 of the 2006 Series General Obligation Bonds. The District will realize in the next fiscal year net present value savings of \$1,366,753 after payment of \$195,000 in underwriting fees and other issuance costs.

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

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of net position—primary government
June 30, 2016

	<u>Business-type activities</u>
Assets	
Current assets:	
Cash and investments	\$ 32,908,527
Receivables (net of allowances for uncollectibles):	
Property taxes	2,047,225
Government grants	1,945,182
Interest	23,600
Other	2,430,791
Prepaid items	<u>558,716</u>
Total current assets	<u>39,914,041</u>
Noncurrent assets:	
Restricted assets:	
Property taxes receivable (net of allowances of \$11,891)	384,491
Capital assets, not being depreciated	1,186,617
Capital assets, being depreciated, net	<u>85,513,936</u>
Total noncurrent assets	<u>87,085,044</u>
Total assets	<u>126,999,085</u>
Deferred outflows of resources	
Deferred outflows related to pensions	4,938,034
Deferred charge on debt refunding	<u>2,895,639</u>
Total deferred outflows of resources	<u>7,833,673</u>
Liabilities	
Current liabilities:	
Accounts payable	962,995
Accrued payroll and employee benefits	1,790,684
Interest payable	1,199,781
Unearned revenues	646,615
Deposits held in custody for others	495,587
Current portion of compensated absences payable	98,172
Current portion of long-term debt	<u>3,090,609</u>
Total current liabilities	<u>8,284,443</u>

(Continued)

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of net position—primary government
June 30, 2016
(Continued)

	<u>Business-type activities</u>
Noncurrent liabilities:	
Compensated absences payable	\$ 978,317
Long-term debt	59,192,085
Net pension liability	<u>40,216,044</u>
Total noncurrent liabilities	<u>100,386,446</u>
Total liabilities	<u>108,670,889</u>
Deferred inflows of resources	
Deferred inflows related to pensions	<u>3,396,196</u>
Net position	
Net investment in capital assets	27,758,380
Restricted:	
Expendable:	
Grants and contracts	3,249,304
Debt service	1,683,482
Capital projects	503,612
Unrestricted (deficit)	<u>(10,429,105)</u>
Total net position	<u>\$ 22,765,673</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, 2016**

**Arizona Western
 College Foundation**

Assets

Current assets	
Cash and cash equivalents	\$ 532,122
Accounts receivable	16,979
Other assets	2,500
Current portion of notes receivable	<u>1,446</u>
Total current assets	<u>553,047</u>
Investments	5,004,232
Property and equipment, net	730,820
Note receivable, less current portion	<u>89,292</u>
Total assets	<u><u>\$ 6,377,391</u></u>

Liabilities and net assets

Current liabilities	
Accounts payable	\$ 5,945
Accrued payroll and related liabilities	5,866
Current portion, capital leases	1,198
Rental deposits	<u>9,496</u>
Total current liabilities	<u>22,505</u>
Long-term liabilities	
Capital leases, net of current portion	1,864
Compensated absences payable	<u>4,925</u>
Total liabilities	<u>29,294</u>

Net assets

Unrestricted	
Undesignated	1,180,693
Designated	383,866
Temporarily restricted	3,052,454
Permanently restricted	<u>1,731,084</u>
Total net assets	<u>6,348,097</u>

Total liabilities and net assets	<u><u>\$ 6,377,391</u></u>
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See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Statement of revenues, expenses, and changes in net position—
primary government
Year ended June 30, 2016

	Business-type activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of \$10,067,237)	\$ 4,352,168
Bookstore income	355,043
Food service income (net of scholarship allowances of \$355,253)	1,978,849
Dormitory rentals and fees (net of scholarship allowances of \$203,908)	464,268
Other	<u>762,371</u>
Total operating revenues	<u>7,912,699</u>
Operating expenses:	
Educational and general:	
Instruction	23,242,737
Public service	1,080,513
Academic support	3,369,829
Student services	5,457,449
Institutional support	8,212,935
Operation and maintenance of plant	5,620,369
Scholarships	8,551,790
Auxiliary enterprises	5,136,214
Depreciation	<u>4,444,443</u>
Total operating expenses	<u>65,116,279</u>
Operating loss	<u>(57,203,580)</u>
Nonoperating revenues (expenses):	
Property taxes	34,036,870
State appropriations	3,569,800
Government grants	24,778,860
Share of state sales taxes	884,436
Private grants and gifts	672,589
Investment earnings	173,475
Interest expense on debt	(2,696,729)
Other nonoperating revenues	153,280
Loss on disposal of capital assets	<u>(2,667)</u>
Total nonoperating revenues (expenses)	<u>61,569,914</u>
Income before other revenues, expenses, gains, or losses	4,366,334
Capital grants and gifts	<u>1,603</u>
Increase in net position	4,367,937
Net position , July 1, 2015	<u>18,397,736</u>
Net position, June 30, 2016	<u>\$ 22,765,673</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, 2016

	Arizona Western College Foundation			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues and support				
Donations	\$ 6,859	\$ 944,187	\$ 80,692	\$ 1,031,738
Arizona Western College support	116,412			116,412
Rental income	198,377			198,377
Investment income (loss), net of expenses of \$76,286 and \$49,743, respectively	154,755	(44,129)		110,626
Unrealized losses	(16,849)	(50,728)		(67,577)
Realized losses	(114,173)	(2,605)		(116,778)
Other income	11,588			11,588
Net assets released from restrictions	<u>267,643</u>	<u>(267,643)</u>		
Total revenues and support	<u>624,612</u>	<u>579,082</u>	<u>80,692</u>	<u>1,284,386</u>
Expenses				
Program services:				
Arizona Western College contributed salaries	124,860			124,860
Scholarships	221,046			221,046
Rental operations	159,568			159,568
Supporting services:				
Management and general	128,552			128,552
Fund-raising	<u>299</u>			<u>299</u>
Total expenses	<u>634,325</u>			<u>634,325</u>
Changes in net assets	(9,713)	579,082	80,692	650,061
Net assets, beginning of year, as restated	<u>1,574,272</u>	<u>2,473,372</u>	<u>1,650,392</u>	<u>5,698,036</u>
Net assets, end of year	<u>\$ 1,564,559</u>	<u>\$ 3,052,454</u>	<u>\$ 1,731,084</u>	<u>\$ 6,348,097</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, 2016

	Business-type activities
Cash flows from operating activities:	
Tuition and fees	\$ 4,325,539
Bookstore receipts	355,043
Food services receipts	1,978,849
Dormitory rentals and fees	464,268
Other receipts	569,154
Payments to suppliers and providers of goods and services	(14,834,171)
Payments for employee wages and benefits	(37,747,448)
Payments to students for scholarships	(8,551,790)
Net cash used for operating activities	<u>(53,440,556)</u>
Cash flows from noncapital financing activities:	
Property taxes	33,621,637
State appropriations	3,569,800
Government grants	24,783,328
Share of state sales taxes	877,754
Private grants and gifts	672,589
Other nonoperating expenses	(14,582)
Federal direct lending receipts	1,195,794
Federal direct lending disbursements	(1,195,794)
Deposits held in custody for others received	2,456,556
Deposits held in custody for others disbursed	(2,499,900)
Net cash provided by noncapital financing activities	<u>63,467,182</u>
Cash flows from capital and related financing activities:	
Principal paid on capital debt	(2,955,000)
Capital grants and gifts	1,603
Interest paid on capital debt	(2,477,609)
Purchases of capital assets	(4,753,733)
Net cash used for capital and related financing activities	<u>(10,184,739)</u>
Cash flows from investing activities:	
Interest received on investments	169,579
Net proceeds from sales and maturities of investments	691,259
Net cash provided by investing activities	<u>860,838</u>
Net increase in cash and cash equivalents	702,725
Cash and cash equivalents, July 1, 2015, as restated *	<u>19,763,803</u>
Cash and cash equivalents, June 30, 2016	<u>\$ 20,466,528</u>

(Continued)

*Adjusted for long-term investments that were included in the beginning cash and cash equivalents balance.

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, 2016
(Continued)

	<u>Business-type activities</u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and investments	\$ 32,908,527
Less: long-term investments	<u>(12,441,999)</u>
Cash and cash equivalents, June 30, 2016	<u>20,466,528</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	(57,203,580)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	4,444,443
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources	
Increase in:	
Accrued payroll and employee benefits	478,473
Unearned revenues	122,300
Other receivables	(342,146)
Prepaid items	(381,699)
Net pension liability	2,752,650
Decrease in:	
Deferred outflows of resources related to pensions	634,278
Accounts payable	(570,571)
Deferred inflows of resources related to pensions	(3,154,995)
Compensated absences payable	<u>(219,709)</u>
Net cash used for operating activities	<u>\$ (53,440,556)</u>
Noncash transactions	
Gifts of depreciable and nondepreciable assets	12,786
Amortization of premium on bonds	167,862
Capital lease—telephony system	355,815
Deferred outflows from bond refinancing	(297,167)

See accompanying notes to financial statements.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to financial statements
June 30, 2016

Note 1 - Summary of significant accounting policies

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

For the year ended June 30, 2016, the District implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 establishes standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements.

A. Reporting entity

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

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

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

During the year ended June 30, 2016, the Foundation distributed \$124,860 to the District for employee support services provided by the District to the Foundation. During the year, the District was a recipient of a Title V federal grant. The Foundation designated \$383,866 during the year ended June 30, 2016, to meet matching requirements on an irrevocable endowment in compliance with Title V federal guidelines for the Dreams to Reality Program. Terms of the endowment require the Foundation to permanently designate contributions as restricted for the purpose of faculty and staff development programs and student scholarships. In addition, the District provided \$116,412 of support to the Foundation during the fiscal year. Complete financial statements for the Foundation can be obtained from the Foundation Office, PO Box 929, Yuma, AZ 85364-0929.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to financial statements
June 30, 2016

B. Basis of presentation and accounting

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

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

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

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

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

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

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

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to financial statements
June 30, 2016

C. Cash and investments

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

D. Capital assets

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

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

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

E. Deferred outflows and inflows of resources

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

F. Pensions

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

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to financial statements
June 30, 2016

G. Investment earnings

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

H. Scholarship allowances

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

I. Compensated Absences

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

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

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

Note 2 - Deposits and investments

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

Deposits—At June 30, 2016, the total cash on hand was \$7,480, the carrying amount of the District's deposits was \$6,017,729, and the bank balance was \$6,694,986. The District does not have a formal policy with respect to custodial credit risk for deposits.

Yuma/La Paz Counties Community College District
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Notes to financial statements
June 30, 2016

Investments—The District’s investments at June 30, 2016, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

	Amount	Fair value measurement using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment by fair value level				
U.S. Treasury securities	\$ 4,764,523	\$ -	\$ 4,764,523	\$ -
U.S. agency securities	<u>8,538,299</u>		<u>8,538,299</u>	
Total investments by fair value level	<u>\$13,302,822</u>	<u>\$ -</u>	<u>\$13,302,822</u>	<u>\$ -</u>
External investment pools measured at fair value				
State Treasurer’s investment pool 7	50,227			
County Treasurer’s investment pool	<u>13,530,269</u>			
Total external investment pools measured at fair value	<u>13,580,496</u>			
Total investments measured at fair value	<u>26,883,318</u>			
Total investments	<u>\$26,883,318</u>			

Investments categorized as Level 2 are valued using the observed market transactions, independent pricing service, third-party counterparty evaluations and discounted cash flow, matrix or model prices with appropriate assumptions based on observable market inputs. Investments in the State Treasurer’s investment pool are valued at the pool’s share price multiplied by the number of shares the District held. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. The investment in the County Treasurer’s pool is valued using the District’s proportionate participation in the pool because the pool’s structure does not provide for shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools. No comparable oversight is provided for the County Treasurer’s investment pool.

Credit risk—The District does not have a formal policy with respect to credit risk. As of June 30, 2016, credit risk for the District’s investments was as follows:

Investment type	Rating	Rating agency	Amount
State Treasurer’s investment pool 7	Unrated	Not applicable	\$ 50,227
County Treasurer’s investment pool	Unrated	Not applicable	13,530,269
U.S. agency securities	Aaa/AA+	Moody’s/Standard & Poor’s	<u>8,538,299</u>
Total			<u>\$22,118,795</u>

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

Yuma/La Paz Counties Community College District
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June 30, 2016

Concentration of credit risk—The District does not have a formal policy regarding concentration of credit risk. The District had investments at June 30, 2016, of 5 percent or more in Federal National Mortgage Association and Federal Home Loan Mortgage. These investments were 18 percent and 7 percent, respectively, of the District’s total investments.

Interest rate risk—As a means of limiting its exposure to fair value losses arising from rising interest rates, the District’s policy limits the District’s investment portfolio to maturities of 1 to 3 years. At June 30, 2016, the District had the following investments in debt securities:

Investment type	Amount	Investment maturities	
		Less than 1 Year	1-3 Years
State Treasurer’s investment pool 7	\$ 50,227	\$ 50,227	
County Treasurer’s investment pool	13,530,269	13,530,269	
U.S. Treasury securities*	4,764,523	996,422	\$3,768,101
U.S. agency securities*	<u>8,538,299</u>	<u>3,689,289</u>	<u>4,849,010</u>
Total	<u>\$26,883,318</u>	<u>\$18,266,207</u>	<u>\$8,617,111</u>

* At June 30, 2016, \$911,586 of the investments in U.S. agency securities and \$225,151 of the investments in U.S. Treasury securities were considered to be highly sensitive to interest rate changes, as follows:

U.S. agency securities	LIBOR—Monthly	\$ 586,560
U.S. agency securities	LIBOR—Quarterly	325,026
U.S. Treasury securities	T-Bills—Quarterly	<u>225,151</u>
		<u>\$1,136,737</u>

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

Cash, deposits, and investments:		Statement of Net Position:	
Cash on hand	\$ 7,480	Cash and investments	\$32,908,527
Amount of deposits	6,017,729		
Amount of investments	<u>26,883,318</u>		
Total	<u>\$32,908,527</u>	Total	<u>\$32,908,527</u>

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to financial statements
June 30, 2016

Note 3 - Capital assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 569,215			\$ 569,215
Construction in progress	<u>2,789,705</u>	\$ 617,402	\$2,789,705	<u>617,402</u>
Total capital assets not being depreciated	<u>3,358,920</u>	<u>617,402</u>	<u>2,789,705</u>	<u>1,186,617</u>
Capital assets being depreciated:				
Buildings	108,612,970	5,933,320		114,546,290
Equipment	13,584,877	1,104,060	436,208	14,252,729
Improvements other than buildings	22,269,369	146,779		22,416,148
Library books	<u>1,590,296</u>	<u>97,692</u>	<u>259,793</u>	<u>1,428,195</u>
Total capital assets being depreciated	<u>146,057,512</u>	<u>7,281,851</u>	<u>696,001</u>	<u>152,643,362</u>
Less accumulated depreciation for:				
Buildings	\$ 35,487,094	\$2,666,415		\$ 38,153,509
Equipment	11,867,390	765,942	\$ 433,541	12,199,791
Improvements other than buildings	14,925,390	925,250		15,850,640
Library books	<u>1,098,443</u>	<u>86,836</u>	<u>259,793</u>	<u>925,486</u>
Total accumulated depreciation	<u>63,378,317</u>	<u>4,444,443</u>	<u>693,334</u>	<u>67,129,426</u>
Total capital assets being depreciated, net	<u>82,679,195</u>	<u>2,837,408</u>	<u>2,667</u>	<u>85,513,936</u>
Capital assets, net	<u>\$ 86,038,115</u>	<u>\$3,454,810</u>	<u>\$2,792,372</u>	<u>\$ 86,700,553</u>

Note 4 - Construction and other commitments

The District had major contractual commitments related to various capital projects at June 30, 2016, for the following: the construction of the Parker Community Center at the Parker Learning Center and the renovation of a Nursing classroom on the Yuma campus. At June 30, 2016, the District had spent \$617,402 on these projects and had remaining contractual commitments with contractors of \$1,389,338. The Unexpended Plant Fund is financing the Parker Community Center and restricted monies received from the Arizona Department of Revenue is financing the renovation of the Nursing classroom. Unexpended Plant Funds used on district capital projects are provided by board-designated monies set aside in prior years from reserve funds and periodic transfers from the General Fund.

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to financial statements
June 30, 2016

Note 5 - Long-term liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within 1 year
General obligation bonds	\$ 59,940,000		\$2,955,000	\$ 56,985,000	\$2,575,000
Premiums	5,109,741		167,862	4,941,879	444,881
Total bonds payable	<u>\$ 65,049,741</u>		<u>\$3,122,862</u>	<u>\$ 61,926,879</u>	<u>\$3,019,881</u>
Capital leases payable		\$ 355,815		\$ 355,815	\$ 70,728
Net pension liability	\$ 37,463,394	2,752,650		40,216,044	
Compensated absences payable	1,296,198	1,224,266	\$1,443,975	1,076,489	98,172
Total long-term liabilities	<u>\$103,809,333</u>	<u>\$4,332,731</u>	<u>\$4,566,837</u>	<u>\$103,575,227</u>	<u>\$3,188,781</u>

General obligation bonds payable—General obligation bonds payable at June 30, 2016, consisted of the outstanding general obligation bonds presented below. The bonds are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. Bonds have also been issued to advance-refund previously issued bonds. Principal and interest on the bonds are payable from an ad valorem tax levied against all the taxable property in the District. The bonds issued are payable from such a tax without limit as to rate or amount.

General obligation bonds outstanding at June 30, 2016, were as follows:

Description	Original amount issued	Interest rates	Maturity ranges	Outstanding principal
General obligation bonds—series 2006	\$53,850,000	3.75–5.00%	7/1/2015-31	\$12,730,000
General obligation refunding bonds—series 2014	28,665,000	1.00–5.00%	7/1/2016-25	28,220,000
General obligation refunding bonds—series 2014A	16,535,000	1.00–5.00%	7/1/2016-30	<u>16,035,000</u>
				<u>\$56,985,000</u>

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

Year ending June 30	Principal	Interest
2017	\$ 2,575,000	\$ 2,342,588
2018	2,690,000	2,245,262
2019	2,770,000	2,149,513
2020	2,875,000	2,036,612
2021	3,000,000	1,911,613
2022-26	17,115,000	7,437,238
2027-31	22,150,000	2,960,355
2032	<u>3,810,000</u>	<u>71,438</u>
Total	<u>\$56,985,000</u>	<u>\$21,154,619</u>

Yuma/La Paz Counties Community College District
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In prior years, the District defeased certain general obligation bonds using the proceeds to purchasing new bonds at a lower interest rate. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the defeased general obligation bonds are not included in the District's financial statements. At June 30, 2016, the District had General Obligation Bonds Series 2006 of \$30,630,000 outstanding that are considered defeased.

Note 6 - Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with seven other Arizona community college districts and more than 200 Arizona school districts in the Arizona School Risk Retention Trust, Inc. (Trust), a public-entity risk pool. The Trust insures the District against liabilities arising from general liability, professional liability, property liability, automobile liability, and commercial crime risks. The coverage limits and deductibles are listed below:

Coverage	Limit	Deductible
General	\$10,000,000/occurrence	None
	Employer's liability: \$2,000,000/accident or disease	\$500,000/accident or disease
Professional	Administrative practices: \$150,000/claim, \$300,000 aggregate	None
	Criminal legal defense: \$100,000/claim, \$200,000 aggregate	None
Property	Total insurable value: \$110,717,803	\$1,000/occurrence
Automobile	\$10,000,000/occurrence	None
	\$15,000 each person/\$250,000 each accident underinsured/uninsured motorist	
Commercial crime	\$1,500,000/occurrence	\$100/occurrence

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

In addition, the District is a member of the Yuma Area Benefit Consortium (the Consortium), which provides life insurance, accidental death and dismemberment, disability, basic or major medical coverage for accidents or sicknesses, as well as dental and vision insurance coverage to its employees through the Consortium. The Consortium, currently composed of four voting members and some small nonvoting agencies, provides benefits up to \$100,000 per individual per calendar year through a self-funding agreement with its participants and purchases commercial insurance to cover claims in excess of this limit. An independent administrator provides the Consortium with claims and recordkeeping services. The District is responsible for paying the premiums but requires its employees to contribute a portion of them. The District would be assessed an additional contribution should the Consortium become insolvent. This additional contribution shall not exceed the amount of the District's annual contribution (i.e., premium) and,

Yuma/La Paz Counties Community College District
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Notes to financial statements
June 30, 2016

once made, thereby releases the District from further legal obligations of any type. Should the District withdraw from the Consortium, it would then be responsible for its proportional share of claims run-out costs that exceed the Consortium reserves established for the incurred but not reported claims liability. If the Consortium were to terminate, the District would be responsible for its proportional share of any Consortium deficit. The District's proportional share upon termination shall not exceed the amount of the District's annual contributions, and once made, releases the District from all further legal obligations of any type. No additional contributions to the Consortium have been made in any of the past 3 fiscal years.

Note 7 - Pension and other postemployment benefits

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

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

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

* With actuarially reduced benefits.

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

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June 30, 2016

Contributions—In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, the District was required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 percent for retirement, 0.13 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the District in positions that an employee who contributes to the ASRS would typically fill. The District's contributions to the pension plan for the year ended June 30, 2016, were \$2,710,797. The District's OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

Year ended June 30	Health benefit supplement fund	Long-term disability fund
2016	\$117,181	\$28,368
2015	137,755	28,026
2014	133,789	53,493

Pension liability—At June 30, 2016, the District reported a liability of \$40,216,044 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The District's proportion measured as of June 30, 2015, was 0.26 percent, which was an increase of 0.01 from its proportion measured as of June 30, 2014.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2016, the District recognized pension expense for ASRS of \$2,942,731. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$1,097,409	\$2,107,361
Net difference between projected and actual earnings on pension plan investments		1,288,835
Changes in proportion and differences between district contributions and proportionate share of contributions	1,129,828	
District contributions subsequent to the measurement date	<u>2,710,797</u>	
Total	<u>\$4,938,034</u>	<u>\$3,396,196</u>

Yuma/La Paz Counties Community College District
(Arizona Western College)
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June 30, 2016

The \$2,710,797 reported as deferred outflows of resources related to ASRS pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2017	\$ (163,179)
2018	(1,056,498)
2019	(879,660)
2020	930,378

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

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

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

Asset class	Target allocation	Long-term expected real rate of return
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	<u>2%</u>	3.93%
Total	<u>100%</u>	

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

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

	1% Decrease (7%)	Current discount rate (8%)	1% Increase (9%)
District's proportionate share of net pension liability	\$52,696,761	\$40,216,044	\$31,662,663

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

Pension contributions payable—The District’s accrued payroll and employee benefits included \$281 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2016.

Note 8 - Operating expenses

The District’s operating expenses are presented by functional classification in the Statement of revenues, expenses, and changes in net position—primary government. The operating expenses can also be classified into the following:

Personal services	\$38,238,144
Contract services	5,536,887
Supplies and other services	2,572,795
Communications and utilities	2,345,306
Scholarships	8,551,790
Depreciation	4,444,443
Other	3,426,914
Total	<u>\$65,116,279</u>

The District uses credit cards to pay certain vendors for goods and services. The District received \$22,575 in rebates resulting from credit card payments for the year ended June 30, 2016.

Yuma/La Paz Counties Community College District
(Arizona Western College)
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June 30, 2016

Note 9 - Subsequent event

Subsequent to the year ended June 30, 2016, the District refinanced the remaining General Obligation Bonds of the 2006 Series of \$10,895,000 prior to their stated maturity dates, net of the principal payment of \$1,835,000 made in July 2016. The District will realize in the next fiscal year net present value savings of \$1,366,753, or 12.54%, after payment of \$195,000 in underwriting fees and other issuance costs.

Note 10 - Discretely presented component unit

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

Summary of significant accounting policies

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

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

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

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

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

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

Yuma/La Paz Counties Community College District

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Notes to financial statements

June 30, 2016

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.

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

Property and equipment—Assets with a unit cost greater than \$5,000 are capitalized at historical cost, or estimated historical cost if actual historical cost is not available. Assets donated to the Foundation are recorded at their estimated fair value at the time received. Depreciation on building improvements and furniture and equipment is computed using the straight-line method over the estimated useful lives of the assets. Expenses associated with the repair or maintenance of buildings and improvements, furniture and equipment are not capitalized. Estimated useful lives of property and equipment range from 3 years to 31 years.

Donated services—Donated services are comprised of personnel related costs provided by Arizona Western College which was \$124,860 for the year ended June 30, 2016.

Tax-exempt status—The Foundation qualifies as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code and is not subject to income taxes. The Foundation is not a private foundation and contributions to the Foundation qualify as charitable deductions by the contributor. As of June 30, 2016, no uncertain tax positions have been identified and accordingly, no provision has been made.

Fair value measurements

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

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

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

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

Yuma/La Paz Counties Community College District
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Level 3 assets are valued based on inputs other than quoted market prices that reflect assumptions about the asset that market participants would use when performing the valuation based on the best information available in the circumstances.

As a general matter, the fair value of the hedge funds' investments represents the amount that the hedge funds can reasonably expect to receive if the investment was sold at its reported net asset value (NAV). The determination of fair value involves subjective judgment and amounts ultimately realized may vary from the estimated values. In evaluating the level at which the fair value measurement of the hedge funds' investments are classified, certain factors are considered such as price transparency, the ability to redeem shares at NAV at the measurement date and the existence or absence of certain redemption restrictions at the measurement date. While the sale of shares is restricted, other than a time delay, there are no significant restrictions on The Foundation's ability to redeem its shares.

Each hedge fund has its own investment strategies depending on the underlying nature of its investments. Such strategies typically strive to maximize return using a diversified portfolio and are further discussed in their separately issued audited financial statements.

The following tables sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2016:

	Level 1	Total
June 30, 2016		
Equities	\$2,065,552	\$2,065,552
Corporate bonds	1,059,818	1,059,818
Mutual funds	469,404	469,404
Mutual funds—equity securities	753,538	753,538
Real estate (REIT and other)	275,177	275,177
Total investments	<u>4,623,489</u>	<u>4,623,489</u>
Hedge funds measured at net asset value	<u> </u>	<u>380,743</u>
Total assets, June 30, 2016	<u>\$4,623,489</u>	<u>\$5,004,232</u>

In May 2015, the Financial Accounting Standards Board (FASB) issued a new accounting standards update which removed the previous requirement to categorize all investments for which fair value is measured using the NAV per share practical expedient. As permitted, The Foundation elected to early adopt this standards update for its June 30, 2016 financial statements. Accordingly, The Foundation's hedge fund investments carried at fair value have not been categorized in the above fair value hierarchy.

The following table sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the year ended June 30, 2016:

	2016
Balances at beginning of year	\$ 13,841
Sale of land	(13,841)
Balances at end of year	<u>\$ -</u>

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to financial statements
June 30, 2016

Note receivable

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

Also, on December 29, 2015, the Foundation sold real property that was donated through the Barbara Joan Cook Trust and entered into an agreement to finance the purchase. The loan is collectible in monthly installments of \$270 including interest at 6% per annum through April, 2018 with a remaining balance due at maturity of \$43,538.

The outstanding note balances at June 30, 2016 are as follows.

	2016
Schewe Idaho property	\$46,210
Barbara Cook Trust	<u>44,528</u>
Total outstanding	<u>\$90,738</u>

Property and equipment

Property and equipment as of June 30, 2016, consists of the following:

	2016
Building and improvements	\$1,175,410
Furniture and equipment	<u>9,491</u>
	1,184,901
Less: accumulated depreciation	<u>(708,821)</u>
	476,080
Land	<u>254,740</u>
Net property and equipment	<u>\$ 730,820</u>

Capital lease obligations

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

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to financial statements
June 30, 2016

June 30	Amount
2017	\$ 1,381
2018	1,381
2019	<u>690</u>
Total payment	3,452
Less amount representing interest	<u>(390)</u>
Total principal	3,062
Less: current portion	<u>(1,198)</u>
Long-term portion	<u>\$ 1,864</u>

Assets acquired under capital leases are recorded at \$6,052 and the accumulated depreciation on these assets as of June 30, 2016 was \$3,426.

Concentrations

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

Board-designated net assets and endowments

Designated net assets—During the year ended June 30, 2016, Arizona Western College Foundation designated \$383,866 to meet matching requirements on an irrevocable endowment established by Arizona Western College in compliance with Title V Federal guidelines for the Dreams to Reality Program. Terms of the endowment require the Foundation to permanently designate contributions as restricted for the purpose of faculty and staff development programs and student scholarships.

Of the allowable amount that may be expended annually in compliance with Title V Federal guidelines, 50% shall be returned to principal and reinvested, 45% shall be distributed for the purposes designated by the Foundation, and 5% shall be transferred to the Foundation for administrative costs. No endowment earnings may be expended until October 1, 2016, and only endowment earnings on the donor's portion may be expended until October 1, 2031.

The composition of and changes in the board designated endowment assets for the year ended June 30, 2016:

	2016
Balance, beginning of year as reclassified	\$222,473
Increase in designation	<u>161,393</u>
Balance, end of year	<u>\$383,866</u>

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

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to financial statements
June 30, 2016

gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of the gifts to the permanent endowments, and accumulated earnings that are required to be classified as permanently restricted based on donor stipulations. The remaining portion of a donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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

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

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

The summary of changes in endowment fund balances for the year ended June 30, 2016 follows:

	Temporarily restricted	Permanently restricted	Total
Balance as of June 30, 2015	\$ 955,864	\$1,650,392	\$2,606,256
Contributions	790,041	80,692	870,733
Investment return:			
Investment losses	(43,351)		(43,351)
Realized losses	(2,559)		(2,559)
Unrealized losses	<u>(49,834)</u>		<u>(49,834)</u>
Total investment return	<u>(95,744)</u>		<u>(95,744)</u>
Appropriations	(249,821)		(249,821)
Balance as of June 30, 2016	<u>\$1,400,340</u>	<u>\$1,731,084</u>	<u>\$3,131,424</u>

Yuma/La Paz Counties Community College District
(Arizona Western College)
Notes to financial statements
June 30, 2016

Temporarily restricted net assets

The components of temporarily restricted net assets at June 30, 2016, are as follows:

Endowments	\$1,400,340
Title V Dreams to Reality	383,866
Other investments	<u>1,268,248</u>
Total temporarily restricted net assets	<u>\$3,052,454</u>

Restatement of net assets

Temporarily and permanently restricted net assets at the beginning of the year have been adjusted to correct errors made in prior years for the classification of net assets relating to the Title V Dreams to Reality grant and matching contributions. These errors had no effect on the changes in net assets for the year ended June 30, 2016.

	Unrestricted		Temporarily restricted	Permanently restricted	Total
	Undesignated	Designated			
Net assets as of June 30, 2014, as originally reported	\$ 991,705	\$ 411,024	\$2,117,412	\$1,799,300	\$5,319,441
Reclass of net assets	<u>274,557</u>	<u>(205,512)</u>	<u>170,782</u>	<u>(239,827)</u>	<u>-</u>
Net assets as of July 1, 2014, as restated	<u>\$1,266,262</u>	<u>\$ 205,512</u>	<u>\$2,288,194</u>	<u>\$1,559,473</u>	<u>\$5,319,441</u>

Subsequent Events—Management evaluated subsequent events through October 12, 2016, the date the financial statements were available to be issued. No events of transactions occurred after year-end that require additional disclosure or adjustments to the financial statements.

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Other Required Supplementary Information

**Yuma/La Paz Counties Community College District
 (Arizona Western College)
 Required supplementary information
 Schedule of the District's proportionate share of the net pension liability
 June 30, 2016**

Arizona State Retirement System

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
District's proportion of the net pension liability	0.258180%	0.253189%	Information not available
District's proportionate share of the net pension liability	\$40,216,044	\$37,463,394	
District's covered payroll	\$24,188,420	\$22,952,857	
District's proportionate share of the net pension liability as a percentage of its covered payroll	166%	163%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

Yuma/La Paz Counties Community College District
(Arizona Western College)
Required supplementary information
Schedule of district pension contributions
June 30, 2016

Arizona State Retirement System

	<u>Reporting fiscal year</u>			
	2016	2015	2014	2013 through 2007
Statutorily required contribution	\$ 2,710,797	\$ 2,674,695	\$ 2,385,898	Information
District's contributions in relation to the statutorily required contribution	2,710,797	2,674,695	2,385,898	not available
District's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
District's covered payroll	\$ 23,105,663	\$ 24,188,420	\$ 22,952,827	
District's contributions as a percentage of covered payroll	11.73%	11.06%	10.40%	

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SINGLE AUDIT REPORT



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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 9, 2016. Our report includes a reference to other auditors who audited the financial statements of the Arizona Western College Foundation, the discretely presented component unit, as described in our report on the District's financial statements. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. However, the financial statements of the Arizona Western College Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Arizona Western College Foundation.

Internal control over financial reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-01, 2016-02, 2016-03, and 2016-04 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 2016-05 to be a significant deficiency.

Compliance and other matters

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

Yuma/La Paz Counties Community College District's response to findings

Yuma/La Paz Counties Community College District's responses to the findings identified in our audit are presented in its Corrective Action Plan at the end of this report. The District's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

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

Debbie Davenport
Auditor General

December 9, 2016



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**Independent auditors' report on compliance for each major federal program;
report on internal control over compliance; and report on schedule of
expenditures of federal awards required by the Uniform Guidance**

Members of the Arizona State Legislature

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

Report on compliance for each major federal program

We have audited Yuma/La Paz Counties Community College District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's responsibility

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

Auditors' responsibility

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

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

Opinion on each major federal program

In our opinion, Yuma/La Paz Counties Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on internal control over compliance

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

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

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

Debbie Davenport
Auditor General

December 9, 2016



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of auditors' results

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles Unmodified

Internal control over financial reporting

Material weaknesses identified? Yes

Significant deficiencies identified? Yes

Noncompliance material to the financial statements noted? No

Federal awards

Internal control over major programs

Material weaknesses identified? No

Significant deficiencies identified? None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs

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

Dollar threshold used to distinguish between Type A and Type B programs \$755,317

Auditee qualified as low-risk auditee? No

Other matters

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

Financial statement findings

2016-01

The District should improve its risk assessment process over information technology (IT) security risks

Criteria—The District faces risks of reporting inaccurate financial information and protecting sensitive financial information. One of the components of an effective internal control system is a risk assessment process that assesses the risks the District faces as it seeks to achieve its financial reporting objectives, including reporting accurate financial information and protecting sensitive financial information. It also provides the basis for developing appropriate risk responses. An effective risk assessment process involves clearly defining objectives to better identify risks and define risk tolerances; identifying, analyzing, and responding to identified risks; and considering the potential for fraud when identifying, analyzing, and responding to risks.

Condition and context—The District's annual risk assessment did not include the evaluation of IT security risks. Specifically, the District administration along with its IT management group did not:

- Develop and conduct a district-wide IT security risk assessment process at least annually that includes documenting results and prioritizing risks identified for remediation.
- Identify and classify information by sensitivity and take appropriate action to protect sensitive information.
- Identify, analyze, and prioritize key business processes, including prioritizing the resumption of these processes in the event of a disaster or other system interruption within time frames acceptable to the District, for inclusion in the District's disaster recovery plan.

Effect—There is an increased risk that the District's administration and IT management group may not effectively identify and analyze risks that may impact its IT resources.

Cause—The District has relied on an informal process to perform risk assessment procedures that did not include a risk assessment of its IT security risks.

Recommendation—To help ensure that the District has an effective risk assessment process to identify IT security risks, define risk tolerances, and respond to risks identified, the District's administration and IT management group should include the following in its risk assessment process:

- Conduct an IT security risk assessment process at least annually that includes identification of risk scenarios that could impact the District, including the scenarios' likelihood and magnitude; documentation and dissemination of results; review by appropriate personnel; and prioritization of risks identified for remediation. This assessment should include consideration of any threats identified as part of the District's security vulnerability scans.
- Identify, classify, and inventory sensitive information and develop security measures to protect it, such as implementing controls to prevent unauthorized access to that information. The District's policies and procedures should include the security categories into which information should be classified, as well as the state statutes and federal regulations that could impact the categories.

- Conduct a business impact analysis to evaluate the impact disasters or other system interruptions could have on its critical business processes. The business impact analysis should identify the District's critical business functions and prioritize the resumption of these services within time frames acceptable to the District in the event of contingency plan activation. The District should consider the business impact analysis results when developing its disaster recovery plan.

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

This finding is similar to prior-year findings 2015-03 and 2015-04.

2016-02

The District should improve access controls over its information technology resources

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

Condition and context—The District did not have adequate policies and procedures or consistently implement its policies and procedures to help prevent or detect unauthorized or inappropriate access to its IT resources. Specifically,

- The District did not have adequate policies and procedures for granting, removing, limiting, and periodically reviewing logical access to its IT resources.
- The District did not remove terminated employees' access to its IT resources.
- The District had an excessive number of shared and administrator access accounts that various employees could use to gain access to its IT resources. Also, the District's policies and procedures did not address the use of shared accounts and the reissuing of credentials on shared accounts when a group member leaves.
- The District had contractor accounts that were no longer needed.
- The District did not enforce its network password policies for all network accounts.
- The District did not monitor user activity, including remote users and those users with elevated access on its IT resources.
- District policies and procedures for employee-owned electronic devices with access to the District's network did not provide usage restrictions or data protection considerations or require appropriate security measures.
- District policies and procedures do not require appropriate security measures for remote access to the District's network.
- The District did not periodically review or monitor access to its data center.
- The District did not ensure all public network jacks were disabled.

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

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

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

- Granting, removing, limiting, and changing employees' logical access to its IT resources and performing a periodic, comprehensive review of all existing employee access accounts to ensure that network and system access granted is needed and compatible with job responsibilities.
- Removing employees' network and systems access immediately upon their terminations.
- Reviewing all shared and administrator access accounts on its network and systems to eliminate or minimize their use when possible.
- Permitting the use of shared accounts only when appropriate and in accordance with an established district policy authorizing the use of shared accounts, and reissuing account credentials on shared accounts when a group member leaves.
- Ensuring contractor and other nondistrict accounts are periodically reviewed to ensure their access remains necessary and appropriate.
- Enforcing network and system password policies and ensuring they address all accounts.
- Reviewing and monitoring the key activity of users and those with elevated access for propriety.
- Managing employee-owned and entity-owned electronic devices connecting to the network, including specifying configuration requirements and the data appropriate to access; inventorying devices; establishing controls to support wiping data; requiring security features, such as passwords, antivirus controls, file encryption, and software updates; and restricting the running of unauthorized software applications while on the District's network.
- Managing remote access by requiring that security controls be utilized for all remote access. These controls should include appropriate configuration of security settings such as configuration/connections requirements; the use of encryption to protect the confidentiality and integrity of remote sessions; and the ability to expeditiously disconnect or disable remote access.
- Reviewing access granted to the data center to ensure that it continues to be needed.
- Implementing a process to disable unused Ethernet ports in publicly accessible areas and protecting its IT resources from being used for inappropriate or illegal activities.

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

This finding is similar to prior-year finding 2015-01.

2016-03

The District should improve its information technology resources configuration management processes

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

Condition and context—The District has written policies and procedures for managing changes to its IT resources; however, they lacked critical elements. The District's policies and procedures did not include the following:

- Establishing a change management process for each type of change, including emergency changes and changes exempt from the change management process.
- Requiring all changes follow the change management process and be appropriately documented.
- Reviewing the proposed change for appropriateness and justification, including considering the change's security impact.
- Documenting and retaining records that include a description of the change, the departments and system(s) impacted, the individual responsible for making the change, test procedures performed and the test results, security impact analysis results, and change approvals at each appropriate phase of the change management process.
- Establishing rollback procedures which includes documentation necessary to back out changes that negatively impact IT resources.
- Requiring testing, including performing a security impact analysis of the change, prior to implementation.
- Separating the responsibilities for developing and implementing changes from the responsibilities of authorizing, reviewing, testing, and approving changes for implementation, or if impractical, performing a post-implementation review of the change to confirm the change followed the change management process and was implemented as approved.
- Ensuring IT resources are configured appropriately and securely. For example, the District did not have a process to limit the functionality of IT resources to ensure it is performing only essential services or maintaining baseline configurations for all systems.

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

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

Recommendation—To help prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources, the District should ensure its written policies and procedures for managing configuration changes and its change management processes address the following:

- Establishing a change management process for each type of change, including emergency changes and changes exempt from the change management process.
- Ensuring all changes follow the change management process and appropriately documenting the changes.
- Reviewing proposed changes to determine appropriateness and justification, including considering the change's security impact.
- Logging, documenting, and retaining records of all change details, including a description of the change, the departments and system(s) impacted, the individual responsible for making the change, test procedures, test results, security impact analysis, and approvals.
- Retaining necessary documentation to support the backing out of changes that negatively impact IT resources.
- Testing changes, including performing a security impact analysis before implementing the change.
- Defining and enforcing access restrictions by segregating responsibilities where appropriate for changes to information systems or, if impractical, reviewing changes that were implemented to confirm they were implemented as approved, and followed the change management process.

- Configuring IT resources to provide only essential capabilities to prevent unauthorized connection of devices or transfer of information. The District should review IT resources' functions and services to determine which functions and services it should eliminate.

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

This finding is similar to prior-year finding 2015-02.

2016-04

The District should improve security over its information technology resources

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

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

- Log and monitor key user and system activity, including activity of system administrators.
- Include all necessary elements in or implement its security incident response policies and procedures, including training on these procedures and testing them.
- Have a security awareness program for its employees, nor did it have a training program to help ensure they were familiar with the District's IT security policies and procedures.
- Perform network configuration reviews, such as evaluating firewall settings.
- The District did not properly manage its IT vendors to ensure consideration of IT risks.

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

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

Recommendation—To help ensure that the District is able to effectively maintain and secure its IT resources, the District should ensure that its policies and procedures over securing its IT resources are documented in writing, implemented, and include the following:

- Performing proactive logging and log monitoring. The District should log key user and system activity, particularly for users with administrative access privileges and remote access, along with other activities that could result in potential security incidents such as unauthorized access. The District should determine what events to log, configure the system to generate logs, and decide how often to monitor these logs for indicators of potential attacks or misuse of IT resources. Finally, the District should maintain activity logs where users with administrative access privileges cannot alter them.

- Improving and implementing the District's security incident policies and procedures. This process should include developing and testing an incident response plan and training staff responsible for the plan. The plan should also coordinate incident-handling activities with contingency-planning activities and incorporate lessons learned from ongoing incident-handling in the incident response procedures. The incident response plan should be distributed to incident response personnel and updated as necessary. Security incidents should be reported to incident response personnel so the District can track and document incidents. The District should also ensure these policies and procedures follow regulatory and statutory requirements, provide a mechanism for assisting users in handling and reporting security incidents, and include making disclosures to affected individuals and appropriate authorities should an incident occur.
- Developing a plan to provide continuous training on IT security risks, including a security awareness training program for all employees that provides a basic understanding of information security, user actions to maintain security, and how to recognize and report potential indicators of security threats, including threats generated by other district employees. Provide such training to new users and on an ongoing basis as the District determines. In addition, the District should provide training on IT policies and procedures for all staff.
- Implementing guidelines for IT staff to follow when reviewing network configurations, such as firewalls.
- Monitor the IT vendor's performance to ensure conformance with district contracts.

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

This finding is similar to prior-year finding 2015-03.

2016-05

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

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

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

- Detailed procedures for moving operations to a separate site should a disaster render the data center at the Yuma, AZ, campus inoperable.
- Detailed written policies and procedures detailing the data backup procedures, including restoring the systems using the backup data in an emergency.

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

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

Cause—The District focused its efforts on the day-to-day operations and did not prioritize updating these elements of the plan.

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

- Develop and document procedures for migrating critical information system operations to a separate alternative site for essential business functions, including putting contracts in place or equipping the alternate site to resume essential business functions, if necessary. Information security safeguards at the alternative site should be equivalent to the primary site.
- Establish and document policies and procedures for IT systems and data backups and testing backups to help ensure that the District could recover them in the event that they are needed. Policies and procedures should require data backups to be protected and stored in an alternative site with security equivalent to the primary storage site. Backups should include user-level information, system-level information, and system documentation, including security-related documentation. In addition, critical information system software and security-related information should be maintained at an alternative site or stored in a fire-rated container.
- Develop and document a process to perform regularly scheduled tests of the disaster recovery plan and document the tests performed and results. This process should include updating and testing the disaster recovery plan at least annually or as changes necessitate. Plan testing may include actual tests, simulations, or table top discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. Use test results to update or change the plan.

The District’s responsible officials’ views and planned corrective action are in its Corrective Action Plan included at the end of this report.

This finding is similar to prior-year finding 2015-04.

Federal award findings and questioned costs

None reported.

DISTRICT SECTION

**Yuma/La Paz Counties Community College District
(Arizona Western College)
Schedule of expenditures of federal awards
Year ended June 30, 2016**

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 223	Hispanic Serving Institutions Education Grants				\$ 36,504	
Department of the Interior						
15 238	Challenge Cost Share				18,671	
15 808	US Geological Survey—Research and Data Collection				5,650	
	Total Department of the Interior				<u>24,321</u>	
Department of Labor						
17 258	WIA/WIOA Adult Program	WIA/WIOA Cluster	Yuma Private Industry Council, Inc	AH2015-07-01/AdultFull, AH2015-07-01/AdultABE	187,827	
17 259	WIA/WIOA Youth Activities	WIA/WIOA Cluster	Yuma Private Industry Council, Inc	AH2015-07-01/OSY10, AH2015-07-01/YouthABE	229,000	
17 278	WIA/WIOA Dislocated Workers Formula Grants	WIA/WIOA Cluster	Yuma Private Industry Council, Inc	AH2015-07-01/DWFull, AH2015-07-01/DWABE	10,455	
	<i>Total WIA/WIOA Cluster</i>				<u>427,282</u>	
	Total Department of Labor				<u>427,282</u>	
National Science Foundation						
47 076	Education and Human Resources		Science Foundation Arizona	STEM 603-14/DUE-1400687	23,903	
Small Business Administration						
59 037	Small Business Development Centers		Maricopa County Community College District	SBAHQ-15-B-0040 PO#522552, PO#DSTOF-100010159	98,001	
Department of Education						
84 007	Federal Supplemental Educational Opportunity Grants	Student Financial Assistance Cluster			412,707	
84 033	Federal Work-Study Program	Student Financial Assistance Cluster			339,330	
84 063	Federal Pell Grant Program	Student Financial Assistance Cluster			16,511,350	
84 268	Federal Direct Student Loans	Student Financial Assistance Cluster			1,195,794	
	<i>Total Student Financial Assistance Cluster</i>				<u>18,459,181</u>	
84 031	Higher Education—Institutional Aid				4,542,020	\$ 355,125
84 042	TRIO—Student Support Services	TRIO Cluster			332,044	
84 044	TRIO—Talent Search	TRIO Cluster			248,510	
84 047	TRIO—Upward Bound	TRIO Cluster			286,221	
	<i>Total TRIO Cluster</i>				<u>866,775</u>	
84 048	Career and Technical Education—Basic Grants to States		Arizona Department of Education	16FCTDBG-612101-20A 16FCTPSG-612101-43B 16SCTPS3-612101-45B	289,235	
84 149	Migrant Education—College Assistance Migrant Program				410,005	
	Total Department of Education				<u>24,567,217</u>	<u>355,125</u>
	Total expenditures of federal awards				<u>\$ 25,177,227</u>	<u>\$ 355,125</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, 2016**

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 for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Note 2 - Summary of significant accounting policies

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

Note 3 - Catalog of Federal Domestic Assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 *Catalog of Federal Domestic Assistance*.

Note 4 - Indirect cost rate

The District did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

DISTRICT RESPONSE



December 9, 2016

Debbie Davenport
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

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

Sincerely,

Carole T. Coleman
Vice President for Finance and Administrative
Services

**Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective action plan
Year ended June 30, 2016**

Financial statement findings

2016-01

The District should document its risk assessment process

Anticipated completion date: March 2017

Contact: Director of Computer Information Services

The District agrees with the finding and provides the following corrective action plan.

- The District's IT will work with the Office of Risk Management to conduct a risk assessment process annually and make any changes found necessary as a result of this test. The District will ensure all people responsible for incident response have access to the written procedures.
- The District will inventory and classify data by sensitivity and document the controls preventing unauthorized access to those data through the appropriate policies and procedures referencing appropriate state and federal statutes and regulations.
- The District will perform an analysis and prioritization of recovery for key business processes, including acceptable time frames for restoring those processes for inclusion in the District's disaster recovery plan.

**Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective action plan
Year ended June 30, 2016**

2016-02

The District should improve access controls over its information technology resources.

Anticipated completion date: March 2017

Contact: Director of Computer Information Services

The District agrees with the finding and provides the following corrective action plan.

- The District will follow existing procedures for granting, removing, limiting, and changing employees' logical access to its IT resources and perform a periodic, comprehensive review of all existing employee access accounts to ensure that network and system access granted is needed and compatible with job responsibilities.
- The District will remove employees' network and systems access immediately upon their terminations as per our policy.
- The District will follow existing procedures for reviewing all shared and administrator access accounts on its network and systems to eliminate or minimize their use when possible.
- The District will update existing policies to outline the use of shared accounts and reissuing account credentials on shared accounts when a group member leaves.
- The District will ensure contractor and other non-district accounts are periodically reviewed to ensure their access remains necessary and appropriate.
- The District will ensure network and system password policies address all accounts unless explicitly exempted via written policy.
- The District will review and monitor the key activity of users and those with elevated access for propriety. The District will maintain documentation of the review and any follow up actions taken.
- The District will review our policies regarding managing employee-owned and entity-owned electronic devices connecting to the network and ensure we include how we will handle configuration requirements; the data appropriate to access; inventorying devices; establishing controls to support wiping data; requiring security features, such as passwords, antivirus controls, file encryption, and software updates; and restricting the running of unauthorized software applications while on the District's network.
- The District will review and update our policies regarding managing remote access. We will review security controls such as configuration/connections requirements; the use of encryption to protect the confidentiality and integrity of remote sessions; and the ability to expeditiously disconnect or disable remote access.
- The District will document the review of access granted to the data center to ensure that it continues to be needed per existing policy.
- The District will implement and document a process to disable unused Ethernet ports in publicly accessible areas; and protecting its IT resources from being used for inappropriate or illegal activities.

**Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective action plan
Year ended June 30, 2016**

2016-03

**The District should improve its information technology resources
change management processes**

Anticipated completion date: March 2017

Contact: Director of Computer Information Services

The District agrees with the finding and provides the following corrective action plan.

- The District will expand existing policies and procedures to identify a change management process for each type of change, including emergency changes.
- The District will ensure all changes follow the change management process and are appropriately documented.
- The District will review proposed changes to determine appropriateness and justification, considering the security impact for the change.
- The District will use the existing change management procedures for logging, documenting, and retaining records of all change details, including a description of the change, system(s) impacted, the individual responsible for making the change, test procedures, results, security impact analysis and approvals.
- The District will include in the change management documentation back out procedures for changes that could negatively impact IT resources.
- The District will ensure test processes are documented, including performing a security impact analysis before implementing the change.
- The District will ensure access restrictions are defined and enforced. The District will ensure we document how we follow our change management process.
- The District will document how it configures IT resources to provide only essential capabilities to prevent unauthorized connection of devices or transfer of information. The District will review IT resources' functions and services to determine which functions and services we should eliminate.

**Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective action plan
Year ended June 30, 2016**

2016-04

The District should improve security over its information technology resources

Anticipated completion date: March 2017

Contact: Director of Computer Information Services

The District agrees with the finding and provides the following corrective action plan.

- The District will document procedures for performing proactive logging and log monitoring, identify which types of logs will be monitored and the frequency.
- The District IT will work alongside the Emergency Operations Committee (EOC) and the Office of Risk Management to test the incident response plan and make any changes found necessary as a result of this test. The District will ensure all people responsible for incident response have access to the written procedures.
- The District will develop and implement a plan to provide mandatory training on IT security risks to newly-hired full- and part-time employees during the new-hire orientation process. The same mandatory training will be provided to current full- and part-time employees twice annually. The training will include a security awareness program that provides a basic understanding of information security, user actions to maintain security, and how users can recognize and report potential indicators of security threats, including threats generated by other district employees. IT Division employees will be required to attend advanced security awareness training twice annually. Furthermore, the District will document all training procedures and requirements.
- The District will enhance existing procedures to include guidelines for reviewing network configurations.
- The District will document and implement procedures for monitoring IT vendor's conformance with district contracts.

**Yuma/La Paz Counties Community College District
(Arizona Western College)
Corrective action plan
Year ended June 30, 2016**

2016-05

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

Anticipated completion date: March 2017

Contact: Director of Computer Information Services

The District agrees with the finding and provides the following corrective action plan.

- The District will develop and document procedures for migrating critical information system operations to a separate alternative site for essential business functions, identifying the critical systems to include.
- The District will follow its existing backup procedures for testing backup media and the recoverability of backup data. The District will evaluate methods for off-site backups and develop a plan for implementation. Also, the District will catalog the critical information stored in the fire safe and review annually.
- The District IT will work alongside the Emergency Operations Committee (EOC) and the Office of Risk Management to test the disaster recovery plan and document the process. Any changes found necessary as a result of testing will be included in the plan.



December 9, 2016

Debbie Davenport
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

We have prepared the accompanying summary schedule of prior audit findings as required by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, we are reporting the status of audit findings included in the prior audit' s schedule of findings and questioned costs.

Sincerely,

Carole T. Coleman
Vice President for Finance and Administrative
Services

**Yuma/La Paz Counties Community College District
(Arizona Western College)
Summary schedule of prior audit findings
Year ended June 30, 2016**

Status of financial statement findings

The District should improve access controls over its information technology resources

Finding no.: 2015-01

Status: Partially corrected

Reason: The District was not able to fully implement all the new policies and procedures created. The District needs to review and, if needed, improve the level of specificity in the policies and procedures, and document more thoroughly our adherence to our policies and procedures.

The District should improve its information technology resources change management processes

Finding no.: 2015-02

Status: Partially corrected

The District was not able to fully complete our implementation of our procedures and lacked a policy. The District needs to review and, if needed, improve the level of specificity in our policies and procedures, and document more thoroughly our adherence to our policies and procedures, as well as, create new policies and procedures.

The District should improve security over its information technology resources

Finding no.: 2015-03

Status: Partially corrected

The District was not able to fully complete and document our implementation of our procedures. The District needs to review and, if needed, improve the level of specificity in our policies and procedures, and document more thoroughly our adherence to our policies and procedures. The District also needs to perform needed security reviews and training.

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

Finding no.: 2015-04

Status: Partially corrected

The District was not able to fully improve our disaster recovery plan. The District needs to review and improve the level of specificity in our disaster recovery plan and document more thoroughly our adherence to testing the plan.

