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

Annual Financial Report and Single Audit Report

Year Ended June 30, 2018

A Report to the Arizona Legislature

**Lindsey A. Perry**
Auditor General

ARIZONA Auditor General
*Making a Positive Difference*

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## The Joint Legislative Audit Committee



## Audit Staff

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MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### *Other matters*

*Required supplementary information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-6, schedule of the District's proportionate share of the net pension liability on page 28, and schedule of the District's pension contributions on page 29 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 18, 2018, 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 solely 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 the effectiveness of the District's 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.

Lindsey Perry, CPA, CFE
Auditor General

December 18, 2018

# Yuma/La Paz Counties Community College District
## (Arizona Western College)
## Management's discussion and analysis
## Year ended June 30, 2018

Our 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 fiscal year ended June 30, 2018. 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, 2018. 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, 2018. 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, 2018. 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, 2018. 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.

## Condensed Financial Information

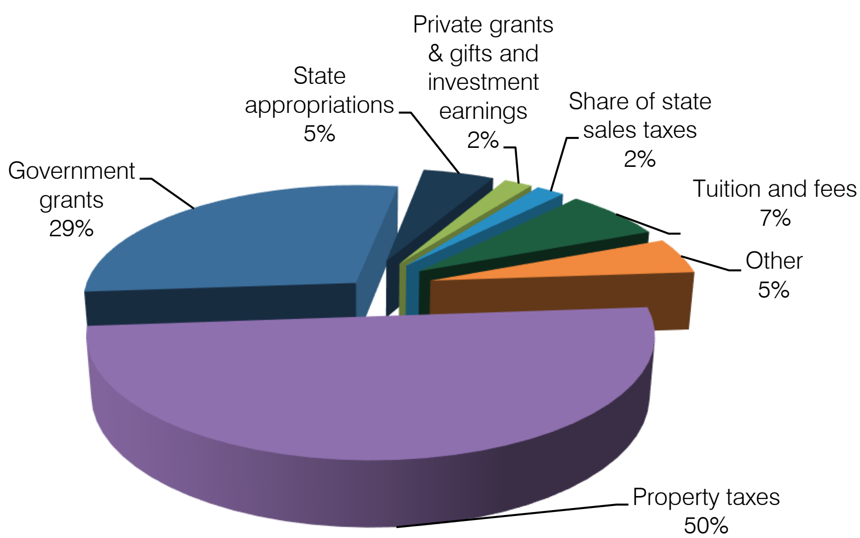
### Net Position—Primary Government
### As of June 30

| | 2018 | 2017 |
|---|---|---|
| Assets: | | |
| Current assets | $ 42,244,528 | $ 41,643,288 |
| Noncurrent assets, other than capital assets | 282,815 | 381,836 |
| Capital assets, net | 81,671,150 | 84,519,264 |
| Total assets | 124,198,493 | 126,544,388 |
| Deferred outflows of resources: | 6,753,776 | 10,297,722 |
| Liabilities: | | |
| Current liabilities | 8,330,264 | 4,269,747 |
| Long-term liabilities | 90,504,718 | 101,825,722 |
| Total liabilities | 98,834,982 | 106,095,469 |
| Deferred inflows of resources: | 4,674,668 | 5,547,295 |
| Net Position: | | |
| Net investment in capital assets | 27,665,227 | 27,530,592 |
| Restricted | 3,431,382 | 3,562,584 |
| Unrestricted | (3,653,990) | (5,893,830) |
| Total net position | $ 27,442,619 | $ 25,199,346 |

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

| | 2018 | 2017 |
|---|---|---|
| Revenues | | |
| Operating | | |
| Tuition and fees (net of scholarship allowances) | $ 4,885,692 | $ 4,281,817 |
| Other (net of scholarship allowances) | 3,470,290 | 3,705,817 |
| Nonoperating | | |
| Property taxes | 33,580,106 | 34,750,882 |
| State appropriations | 3,467,600 | 3,554,100 |
| Government grants | 19,415,371 | 20,601,457 |
| Share of state sales taxes | 988,751 | 941,921 |
| Private grants and gifts | 781,284 | 741,418 |
| Investment earnings | 219,620 | 145,856 |
| Other nonoperating revenues | 7,441 | |
| Capital grants and gifts | 6,796 | 2,411 |
| Total revenues | 66,822,951 | 68,725,679 |
| Expenses | | |
| Operating | 62,650,794 | 64,123,119 |
| Nonoperating | 1,928,884 | 2,168,887 |
| Total expenses | 64,579,678 | 66,292,006 |
| Increase in net position | 2,243,273 | 2,433,673 |
| Total net position, July 1 | 25,199,346 | 22,765,673 |
| Total net position, June 30 | $27,442,619 | $25,199,346 |

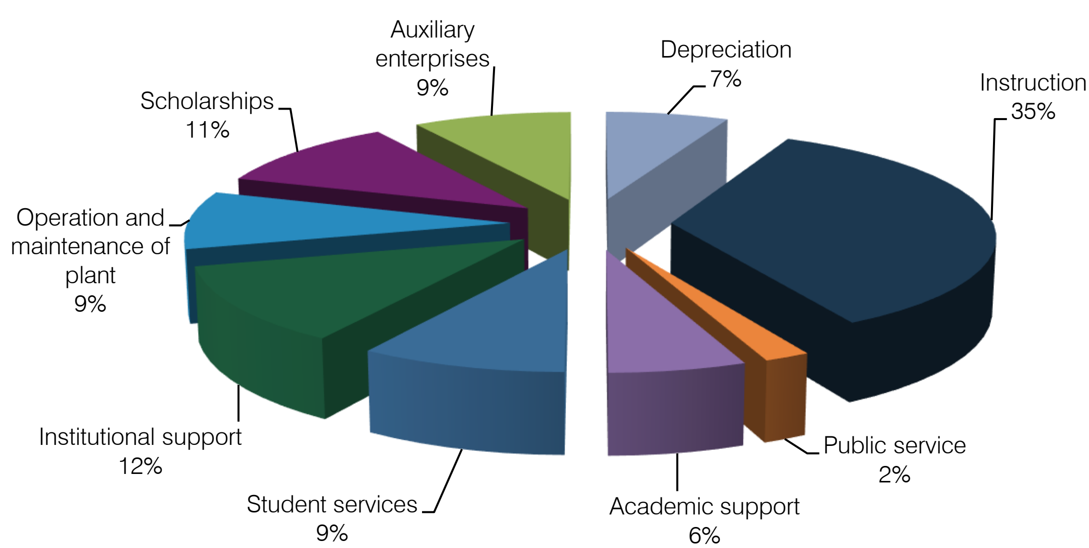
## Percent of 2018 Revenues by Source



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

| | 2018 | 2017 |
|---|---|---|
| Operating expenses | | |
| Educational and general: | | |
| Instruction | $21,689,053 | $21,599,334 |
| Public service | 1,248,207 | 1,183,522 |
| Academic support | 3,685,953 | 3,202,509 |
| Student services | 5,972,365 | 6,109,545 |
| Institutional support | 7,324,386 | 8,567,965 |
| Operation and maintenance of plant | 6,000,097 | 5,825,066 |
| Scholarships | 6,647,895 | 7,776,792 |
| Auxiliary enterprises | 5,536,489 | 5,259,274 |
| Depreciation | 4,546,349 | 4,599,112 |
| Total operating expenses | 62,650,794 | 64,123,119 |
| Nonoperating expenses | | |
| Interest expense on debt | 1,928,884 | 2,050,928 |
| Other nonoperating expenses | | 117,451 |
| Loss on disposal of capital assets | | 508 |
| Total nonoperating expenses | 1,928,884 | 2,168,887 |
| Total expenses | $64,579,678 | $66,292,006 |

## Percent of 2018 Operating Expenses by Category



## Financial Highlights and Analysis

### Financial Position

The District's overall net position improved in 2018 as explained below. Total assets and deferred outflows of resources decreased by nearly $5.9 million from June 30, 2017 to June 30, 2018. This decrease is primarily due to an increase in current assets of approximately $601,000, a decrease in capital assets of over $2.8 million, and a decrease in deferred outflow of over $3.5 million.

Total liabilities and deferred inflows of resources decreased by over $8.1 million. This decrease is primarily due to a net decrease in employee compensated absences payable of approximately $33,000, a decrease in long-term debt of approximately $3.3 million due to the paying down of General Obligation (G.O.) Bonds and other long-term debt, and a decrease in net pension liability of over $4.4 million and a decrease in deferred inflows related to pensions of approximately $873,000 due to ASRS actuarial adjustments.

Total net position for the District improved from fiscal year 2017 to fiscal year 2018 with an increase of over $2.2 million. By net position category there was an increase in net investment in capital assets of approximately $135,000 due to the completion of the San Luis Technology Institute and other construction projects, offset by an increase in capital assets being depreciated; a decrease in restricted assets of approximately $131,000 due to a reduction of scholarships because of declining enrollment in several large grant funded projects that were ending; and an increase in unrestricted net position of about $2.2 million due to reduced expenses and decreases in long-term debt, the net pension liability, and deferred inflows of resources related to pensions.

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 2018 the District's total revenues and capital gifts decreased by about $1.9 million from fiscal year 2017. The following revenue sources make up a significant portion of this total decrease:

- Tuition and fees increased by approximately $604,000 primarily because of the in-state and out-of-state tuition increases.
- Other operating revenues decreased by approximately $236,000 due to the decline of noncash donations/gifts and a contracted bookstore signing bonus in fiscal year 2017 that did not recur in fiscal year 2018.
- Government grants decreased by nearly $1.2 million because of the timing of grants, which are primarily reimbursement based.
- Property taxes decreased by about $1.2 million due to the utilization of reserves established when the Series 2005 and 2006 G.O. Bonds were refinanced in 2014 and 2016. The benefit of the reserves were offset by increased property valuations and increased new construction.
- State appropriations decreased by approximately $87,000 because of decreased state aid.

Total operating expenses decreased by almost $1.5 million from fiscal year 2017 to fiscal year 2018. This reflects approximately a $90,000 increase in instruction, $65,000 increase in public service, $483,000 increase in academic support, $137,000 decrease in student services, $1.2 million decrease in institutional support, $175,000 increase in operations and maintenance, $1.1 million decrease in scholarships, $277,000 increase in auxiliary enterprises, and $53,000 decrease in depreciation. 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, changes in the estimated net pension liability that reduced pension expense, and more efficient operations. Scholarships decreased due to a decrease in Pell grant awarding.

Nonoperating expenses decreased by approximately $240,000 primarily because of a decrease 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 nearly $81.7 million as of June 30, 2018. Capital assets include land, buildings, improvements other than buildings, equipment, and library books. Additional information on capital assets can be found in detail in Note 3 to the District's basic financial statements.

At June 30, 2018, the District had three general obligation bond issues totaling approximately $51.7 million. Additional information on the District's long-term debt can be found in Note 4 to the basic financial statements.

## Current Factors Having Probable Future Financial Significance

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 2018 was the 17th year of this funding, and the District received approximately $989,000. The Arizona State Legislature subsequently extended Proposition 301 for another 20 years through Senate Bill 1390.

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, 2018

| | Business-type activities |
|---|---|
| **Assets** | |
| Current assets: | |
| Cash and cash equivalents | $ 22,629,356 |
| Investments | 13,555,754 |
| Receivables (net of allowances for uncollectibles): | |
| Property taxes | 1,906,697 |
| Government grants and contracts | 1,631,064 |
| Interest | 43,297 |
| Other | 2,329,891 |
| Prepaid items | 148,469 |
| Total current assets | 42,244,528 |
| Noncurrent assets: | |
| Restricted assets: | |
| Property taxes receivable (net of allowances for uncollectibles) | 282,815 |
| Capital assets, not being depreciated | 603,336 |
| Capital assets, being depreciated, net | 81,067,814 |
| Total noncurrent assets | 81,953,965 |
| Total assets | 124,198,493 |
| **Deferred outflows of resources** | |
| Deferred outflows related to pensions | 4,452,469 |
| Deferred charge on debt refunding | 2,301,307 |
| Total deferred outflows of resources | 6,753,776 |
| **Liabilities** | |
| Current liabilities: | |
| Accounts payable | 1,517,251 |
| Accrued payroll and employee benefits | 1,169,435 |
| Interest payable | 1,039,810 |
| Unearned revenues | 576,165 |
| Deposits held in custody for others | 448,900 |
| Current portion of compensated absences payable | 117,774 |
| Current portion of long-term debt | 3,460,929 |
| Total current liabilities | 8,330,264 |

(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, 2018
## (Continued)

| | Business-type activities |
|---|---|
| Noncurrent liabilities: | |
| Compensated absences payable | $ 1,193,728 |
| Long-term debt | 52,794,481 |
| Net pension liability | 36,516,509 |
| Total noncurrent liabilities | 90,504,718 |
| Total liabilities | 98,834,982 |
| **Deferred inflows of resources** | |
| Deferred inflows related to pensions | 4,622,848 |
| Deferred credit on debt refunding | 51,820 |
| Total deferred inflows of resources | 4,674,668 |
| **Net position** | |
| Net investment in capital assets | 27,665,227 |
| Restricted: | |
| Expendable: | |
| Grants and contracts | 2,740,267 |
| Capital projects | 691,115 |
| Unrestricted (deficit) | (3,653,990) |
| Total net position | $ 27,442,619 |

See accompanying notes to financial statements.

# Yuma/La Paz Counties Community College District
## (Arizona Western College)
## Statement of financial position—component unit
## June 30, 2018

| | Arizona Western College Foundation |
|---|---|
| **Assets** | |
| Current assets | |
| Cash and cash equivalents | $ 422,707 |
| Accounts receivable | 5,228 |
| Other assets | 1,129 |
| Long-lived assets held for sale, net | 693,334 |
| Total current assets | 1,122,398 |
| Investments | 5,742,990 |
| Property and equipment, net | 342 |
| Total assets | $ 6,865,730 |
| **Liabilities and net assets** | |
| Current liabilities | |
| Accounts payable | $ 8,535 |
| Accrued payroll and related liabilities | 5,285 |
| Current portion, capital leases | 567 |
| Rental deposits | 14,430 |
| Unearned rents | 2,102 |
| Total current liabilities | 30,919 |
| Long-term liabilities | |
| Compensated absences payable | 17,652 |
| Total liabilities | 48,571 |
| **Net assets** | |
| Unrestricted | |
| Undesignated | 1,126,215 |
| Designated | 467,840 |
| Temporarily restricted | 3,422,371 |
| Permanently restricted | 1,800,733 |
| Total net assets | 6,817,159 |
| Total liabilities and net assets | $ 6,865,730 |

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, 2018

| | Business-type activities |
|---|---|
| Operating revenues: | |
| Tuition and fees (net of scholarship allowances of $8,361,056) | $ 4,885,692 |
| Bookstore income | 286,721 |
| Food service income (net of scholarship allowances of $370,072) | 2,131,227 |
| Dormitory rentals and fees (net of scholarship allowances of $191,446) | 468,580 |
| Other | 583,762 |
| Total operating revenues | 8,355,982 |
| Operating expenses: | |
| Educational and general: | |
| Instruction | 21,689,053 |
| Public service | 1,248,207 |
| Academic support | 3,685,953 |
| Student services | 5,972,365 |
| Institutional support | 7,324,386 |
| Operation and maintenance of plant | 6,000,097 |
| Scholarships | 6,647,895 |
| Auxiliary enterprises | 5,536,489 |
| Depreciation | 4,546,349 |
| Total operating expenses | 62,650,794 |
| Operating loss | (54,294,812) |
| Nonoperating revenues (expenses): | |
| Property taxes | 33,580,106 |
| State appropriations | 3,467,600 |
| Government grants | 19,415,371 |
| Share of state sales taxes | 988,751 |
| Private grants and gifts | 781,284 |
| Investment earnings | 219,620 |
| Interest expense on debt | (1,928,884) |
| Other nonoperating revenues | 7,441 |
| Total nonoperating revenues (expenses) | 56,531,289 |
| Income before other revenues, expenses, gains, or losses | 2,236,477 |
| Capital grants and gifts | 6,796 |
| Increase in net position | 2,243,273 |
| Net position, July 1, 2017 | 25,199,346 |
| Net position, June 30, 2018 | $ 27,442,619 |

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, 2018

| | Arizona Western College Foundation | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Revenues and support | | | | |
| Donations | | $ 176,007 | $ 30,147 | $ 206,154 |
| In-kind contributions | $ 186,770 | | | 186,770 |
| Rental income | 187,662 | | | 187,662 |
| Investment income, net of expenses of $55,195 and $61,848, respectively | 40,440 | 47,875 | | 88,315 |
| Unrealized gains (losses) | (72,984) | (89,923) | | (162,907) |
| Realized gains (losses) | 118,100 | 145,511 | | 263,611 |
| Fundraising income | 23,861 | | | 23,861 |
| Other income | 17,323 | | | 17,323 |
| Net assets released from restrictions | 206,898 | (206,898) | | |
| Total revenues and support | 708,070 | 72,572 | 30,147 | 810,789 |
| Expenses | | | | |
| Program services: | | | | |
| Salaries | 144,622 | | | 144,622 |
| Scholarships | 230,901 | | | 230,901 |
| Rental operations | 123,627 | | | 123,627 |
| Supporting services: | | | | |
| Management and general | 155,837 | | | 155,837 |
| Fund-raising | 20,871 | | | 20,871 |
| Total expenses | 675,858 | | | 675,858 |
| Changes in net assets | 32,212 | 72,572 | 30,147 | 134,931 |
| Net assets, beginning of year | 1,561,843 | 3,349,799 | 1,770,586 | 6,682,228 |
| Net assets, end of year | $ 1,594,055 | $ 3,422,371 | $ 1,800,733 | $ 6,817,159 |

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, 2018

| | Business-type activities |
|---|---|
| Cash flows from operating activities: | |
| Tuition and fees | $ 4,510,685 |
| Bookstore receipts | 286,721 |
| Food services receipts | 2,131,227 |
| Dormitory rentals and fees | 468,580 |
| Other receipts | 554,788 |
| Payments to suppliers and providers of goods and services | (21,126,885) |
| Payments for employee wages and benefits | (38,509,225) |
| Net cash used for operating activities | (51,684,109) |
| Cash flows from noncapital financing activities: | |
| Property taxes | 33,854,661 |
| State appropriations | 3,467,600 |
| Government grants | 19,376,433 |
| Share of state sales taxes | 993,358 |
| Private grants and gifts | 781,284 |
| Other nonoperating expenses | 7,441 |
| Federal direct lending receipts | 844,364 |
| Federal direct lending disbursements | (844,364) |
| Deposits held in custody for others received | 2,891,131 |
| Deposits held in custody for others disbursed | (2,955,711) |
| Net cash provided by noncapital financing activities | 58,416,197 |
| Cash flows from capital and related financing activities: | |
| Principal paid on capital debt and leases | (2,832,012) |
| Capital grants and gifts | 6,796 |
| Interest paid on capital debt | (2,119,970) |
| Purchases of capital assets | (1,698,235) |
| Net cash used for capital and related financing activities | (6,643,421) |
| Cash flows from investing activities: | |
| Interest received on investments | 209,276 |
| Net proceeds from sales and maturities of investments | (83,525) |
| Net cash provided by investing activities | 125,751 |
| Net increase in cash and cash equivalents | 214,418 |
| Cash and cash equivalents, July 1, 2017 | 22,414,938 |
| Cash and cash equivalents, June 30, 2018 | $ 22,629,356 |

(Continued)

See accompanying notes to financial statements.

# Yuma/La Paz Counties Community College District
## (Arizona Western College)
## Statement of cash flows—primary government
## Year ended June 30, 2018
## (Continued)

| | Business-type activities |
|---|---|
| Reconciliation of operating loss to net cash used for operating activities: | |
| Operating loss | $ (54,294,812) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | |
| Depreciation | 4,546,349 |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources | |
| Other receivables | (468,563) |
| Prepaid items | 26,610 |
| Deferred outflows of resources related to pensions | 3,246,780 |
| Accounts payable | 698,534 |
| Accrued payroll and employee benefits | (168,577) |
| Unearned revenues | 64,584 |
| Compensated absences payable | (33,153) |
| Net pension liability | (4,433,220) |
| Deferred inflows of resources related to pensions | (868,641) |
| Net cash used for operating activities | $ (51,684,109) |
| | |
| Noncash transactions | |
| Gifts of depreciable and nondepreciable assets | $ 47,384 |
| Amortization of premium on bonds | 443,916 |
| Deferred inflows/outflows from bond refinancing | (293,180) |

See accompanying notes to financial statements.

## Note 1 - Summary of significant accounting policies

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

### 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, 2018, the Foundation distributed $144,622 to the District for restricted and unrestricted purposes. During the year, the District was a recipient of a Title V federal grant. The Foundation designated $432,321 during the year ended June 30, 2018, 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 $186,770 of support to the Foundation during the fiscal year. Complete financial statements for the Foundation can be obtained from the Foundation Office, PO Box 929, Yuma, AZ, 85364-0929.

### B. Basis of presentation and accounting

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

A statement of net position provides information about the 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 purposes, 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.

## 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 | N/A | N/A |
| Construction in progress | 5,000 | N/A | N/A |
| 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 a revenue in future periods.

### F. Pensions

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

### G. Investment earnings

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

### H. 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 and a calculated amount of sick 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, 2018, the total cash on hand was $8,500, the carrying amount of the District's deposits was $10,458,034, and the bank balance was $10,806,546. The District does not have a formal policy with respect to custodial credit risk for deposits.

**Investments**—The District's investments at June 30, 2018, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

| | | Fair value measurement using | | |
|---|---|---|---|---|
| | | Quoted prices in active markets for identical assets | Significant other observable inputs | Significant unobservable inputs |
| **Investment by fair value level** | Amount | (Level 1) | (Level 2) | (Level 3) |
| U.S. Treasury securities | $ 3,212,858 | $3,212,858 | | $ - |
| U.S. agency securities | 10,342,896 | | $10,342,896 | |
| Total investments by fair value level | $13,555,754 | $3,212,858 | $10,342,896 | $ - |

Investments categorized as Level 1 are valued using prices quoted in active markets for those investments. Investments categorized as Level 2 are valued using the observed market transactions, independent pricing services, third-party counterparty evaluations, and discounted cash flow, matrix, or model prices with appropriate assumptions based on observable market inputs.

| **External investment pools measured at fair value** | |
|---|---|
| State Treasurer's investment pool 7 | $ 50,072 |
| County Treasurer's investment pool | 12,112,750 |
| Total external investment pools measured at fair value | 12,162,822 |
| Total investments measured at fair value | 25,718,576 |
| Total investments | $25,718,576 |

Investments in the State Treasurer's investment pools are valued at the pool's share multiplied by the number of shares the District held. The fair value of a participant's position in the pools 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, 2018, 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 | $ 50,072 |
| County Treasurer's investment pool | Unrated | Not applicable | 12,112,750 |
| U.S. agency securities | Aaa/AA+ | Moody's/Standard & Poor's | 10,342,896 |
| Total | | | $22,505,718 |

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

***Concentration of credit risk***—The District does not have a formal policy regarding concentration of credit risk. The District had investments at June 30, 2018, of 5 percent or more in Federal National Mortgage Association, Federal Home Loan Mortgage, and Federal Home Loan Bank. These investments were 17 percent, 15 percent, and 6 percent, respectively, of the District's total investments.

***Interest rate risk***—As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's policy limits the District's investment portfolio to maturities of one to three years. At June 30, 2018, the District had the following investments in debt securities:

| | | Investment maturities | |
|---|---|---|---|
| **Investment type** | **Amount** | **Less than 1 Year** | **1-3 Years** |
| State Treasurer's investment pool 7 | $ 50,072 | $ 50,072 | |
| County Treasurer's investment pool | 12,112,750 | 12,112,750 | |
| U.S. Treasury securities | 3,212,858 | 495,126 | $2,717,732 |
| U.S. agency securities* | 10,342,896 | 3,172,489 | 7,170,407 |
| Total | $25,718,576 | $15,830,437 | $9,888,139 |

* At June 30, 2018, $211,447 of the investments in U.S. agency securities were considered to be highly sensitive to interest rate changes:

| | | |
|---|---|---|
| U.S. agency securities | LIBOR—Monthly | $211,447 |

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 | $ 8,500 | Cash and cash equivalents | $22,629,356 |
| Amount of deposits | 10,458,034 | Investments | 13,555,754 |
| Amount of investments | 25,718,576 | | |
| Total | $36,185,110 | Total | $36,185,110 |

## Note 3 - Capital assets

Capital asset activity for the year ended June 30, 2018, was as follows:

| | Balance July 1, 2017 | Increases | Decreases | Balance June 30, 2018 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 569,215 | | | $ 569,215 |
| Construction in progress | 79,016 | $ 1,085,207 | $1,130,102 | 34,121 |
| Total capital assets not being depreciated | 648,231 | 1,085,207 | 1,130,102 | 603,336 |
| Capital assets being depreciated: | | | | |
| Buildings | 116,576,836 | 1,070,566 | | 117,647,402 |
| Equipment | 11,980,573 | 513,013 | 1,059,519 | 11,434,067 |
| Improvements other than buildings | 22,450,706 | 59,535 | | 22,510,241 |
| Library books | 1,285,240 | 100,016 | 175,530 | 1,209,726 |
| Total capital assets being depreciated | 152,293,355 | 1,743,130 | 1,235,049 | 152,801,436 |
| Less accumulated depreciation for: | | | | |
| Buildings | $ 40,954,280 | $ 2,830,763 | | $ 43,785,043 |
| Equipment | 9,930,751 | 732,094 | $1,059,519 | 9,603,326 |
| Improvements other than buildings | 16,764,483 | 895,873 | | 17,660,356 |
| Library books | 772,808 | 87,619 | 175,530 | 684,897 |
| Total accumulated depreciation | 68,422,322 | 4,546,349 | 1,235,049 | 71,733,622 |
| Total capital assets being depreciated, net | 83,871,033 | (2,803,219) | | 81,067,814 |
| Capital assets, net | $ 84,519,264 | $(1,718,012) | $1,130,102 | $ 81,671,150 |

## Note 4 - Long-term liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2018:

| | Balance July 1, 2017 | Additions | Reductions | Balance June 30, 2018 | Due within 1 year |
|---|---|---|---|---|---|
| General obligation bonds | $ 54,410,000 | | $2,690,000 | $ 51,720,000 | $2,875,000 |
| Premiums | 4,482,529 | | 443,916 | 4,038,613 | 443,917 |
| Total bonds payable | $ 58,892,529 | | $3,133,916 | $ 55,758,613 | $3,318,917 |
| Capital leases payable | $ 638,809 | | $ 142,012 | $ 496,797 | $ 142,012 |
| Net pension liability | 40,949,729 | | 4,433,220 | 36,516,509 | |
| Compensated absences payable | 1,344,655 | $1,245,935 | 1,279,088 | 1,311,502 | 117,774 |
| Total long-term liabilities | $101,825,722 | $1,245,935 | $8,988,236 | $94,083,421 | $3,578,703 |

**General obligation bonds payable**—General obligation bonds payable at June 30, 2018, consisted of the outstanding general obligation bonds presented below. The bonds are generally callable with interest payable semiannually. Bonds have also been issued to advance-refund previously issued bonds that were used to pay for acquiring or constructing capital facilities. Principal and interest on the bonds are payable from an ad valorem tax levied against all the taxable property in the District. The bonds issued are payable from such a tax without limit as to rate or amount.

General obligation bonds outstanding at June 30, 2018 were as follows:

| Description | Original amount issued | Interest rates | Maturity ranges | Outstanding principal |
|---|---|---|---|---|
| General obligation bonds—series 2014 | $28,665,000 | 1.00–5.00% | 7/1/2018-25 | $24,790,000 |
| General obligation refunding bonds—series 2014A | 16,535,000 | 1.00–5.00% | 7/1/2018-30 | 16,035,000 |
| General obligation refunding bonds—series 2016 | 10,895,000 | 2.60% | 7/1/2018-31 | 10,895,000 |
| | | | | $51,720,000 |

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

| Year ending June 30 | Principal | Interest |
|---|---|---|
| 2019 | $ 2,875,000 | $ 2,079,620 |
| 2020 | 2,980,000 | 1,966,090 |
| 2021 | 3,110,000 | 1,848,360 |
| 2022 | 3,255,000 | 1,710,500 |
| 2023 | 3,365,000 | 1,613,290 |
| 2024-28 | 19,585,000 | 5,413,430 |
| 2029-32 | 16,550,000 | 1,141,410 |
| Total | $51,720,000 | $15,772,700 |

## Note 5 - Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District 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, and property, automobile, boiler, and machinery liability; and commercial crime risks. The coverage limits and deductibles are listed below:

| Coverage | Limit | Deductible |
|---|---|---|
| General | $10,000,000/occurrence | None |
| | Employer's liability: $2,000,000/accident or disease | $500,000/accident or disease |
| | Cyber Liability: $5,000,000/occurrence | $5,000/occurrence |
| Professional | Administrative practices: $150,000/claim, $300,000 aggregate | None |
| | Criminal legal defense: $100,000/claim, $200,000 aggregate | None |
| Property | Total insurable value: $115,512,283 | $1,000/occurrence |
| Automobile | $10,000,000/occurrence | None |
| | $15,000 each person/$250,000 each accident underinsured/ uninsured motorist | |
| Commercial crime | $1,500,000/occurrence | $100/occurrence |

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

In addition, the District is a member of the Yuma Area Benefit Consortium (the Consortium), which provides life insurance, accidental death and dismemberment, disability, basic or major medical coverage for accidents or sicknesses, as well as dental and vision insurance coverage to its employees through the Consortium. The Consortium, currently composed of three voting members and some small non-voting 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 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 6 - Pension

**Plan description**—District employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. The Arizona State Retirement System Board (ASRS Board) governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. 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 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<br>Initial membership date:<br>Before July 1, 2011 | <br><br>On or after July 1, 2011 |
|---|---|---|
| Years of service and age required to receive benefit | Sum of years and age equals 80 | 30 years, age 55 |
| | 10 years, age 62<br>5 years, age 50*<br>any years, age 65 | 25 years, age 60<br>10 years, age 62<br>5 years, age 50*<br>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.

**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, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.34 percent of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 10.9 percent of the active members' annual covered payroll. In addition, statute required the District to contribute at the actuarially determined rate of 9.26 percent 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, 2018, were $2,552,655.

**Liability—**At June 30, 2018, the District reported the following liability for its proportionate share of the ASRS' net pension liability.

| ASRS | Net pension liability |
|---|---|
| Pension | $36,516,509 |

The net pension liability was measured as of June 30, 2017. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

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, 2017. The District's proportion measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016, were:

| ASRS | Proportion June 30, 2017 | Decrease June 30, 2016 |
|---|---|---|
| Pension | 0.23441% | 0.01929 |

The net pension liability measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the District's net pension liability as a result of these changes is not known.

**Expense—**For the year ended June 30, 2018, the District recognized the following pension expense.

| ASRS | Pension expense |
|---|---|
| Pension | $389,007 |

**Deferred outflows/inflows of resources—**At June 30, 2018, 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 | | $1,094,967 |
| Changes of assumptions or other inputs | $1,585,996 | 1,091,909 |
| Net difference between projected and actual earnings on plan investments | 262,163 | |
| Changes in proportion and differences between district contributions and proportionate share of contributions | 51,655 | 2,435,972 |
| District contributions subsequent to the measurement date | 2,552,655 | |
| Total | $4,452,469 | $4,622,848 |

The $2,552,655 reported as deferred outflows of resources related to ASRS pensions resulting from district contributions subsequent to the measurement date will be recognized as an increase or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized as expenses as follows:

| Year ending June 30 | |
|---|---|
| 2019 | $(2,626,229) |
| 2020 | 491,992 |
| 2021 | 251,192 |
| 2022 | (839,989) |

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

| | |
|---|---|
| Actuarial valuation date | June 30, 2016 |
| Actuarial roll forward date | June 30, 2017 |
| 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, 2016, 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 plan investments was determined to be 8.7 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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% | 6.73% |
| Fixed income | 25% | 3.70% |
| Real estate | 10% | 4.25% |
| Multi-asset | 5% | 3.41% |
| Commodities | 2% | 3.84% |
| Total | 100% | |

**Discount rate—**The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.7 percent. The projection of cash flows used to determine the discount rate assumed that participating employers will make contributions 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 these assumptions, the 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 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 the net pension liability | $46,869,574 | $36,516,509 | $27,865,637 |

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

**Contributions payable**—The District's accrued payroll and employee benefits included $0 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2018.

## Note 7 - 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 | $36,252,414 |
| Contract services | 5,402,317 |
| Supplies and other services | 2,958,088 |
| Communications and utilities | 2,465,493 |
| Scholarships | 6,647,895 |
| Depreciation | 4,546,349 |
| Other | 4,378,238 |
| Total | $62,650,794 |

The District uses credit cards to pay certain vendors for goods and services. The District received $36,637 in rebates resulting from credit card payments for the year ended June 30, 2018.

## Note 8 - 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 mostly comprised of assets that the board of directors have designated for the purpose of matching donated contributions for the Dreams to Reality Program. These assets are held in investments in a board designated endowment fund. A portion of net assets are also designated for scholarship programs.

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 has been met, 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 donor imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these resources permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

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

Cash and cash equivalents—The Foundation considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. At times, cash and cash equivalent balances may exceed federally insured amounts.

Investments—Investments in debt and equity securities are carried at fair value based on quoted market prices. Interest and dividend income is recognized when earned. Realized gains and losses are recognized upon the sale 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. Costs associated with the repair or maintenance of buildings and improvements, furniture and equipment are expensed as incurred. Estimated useful lives of property and equipment range from 3 to 31 years.

In-kind contributions—In-kind contributions are reflected as contributions in the accompanying financial statements at their estimated values at the date of receipt.

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, 2018, no uncertain tax positions have been identified and accordingly, no provision has been made.

Rental operations—Foundation owns a plaza and rents the units to various businesses. Rental income is recognized when earned and expenses are recognized when incurred. The building, related improvements and the land reported as property and equipment on the statements of financial position and long-lived assets held for sale are related to the Foundation’s rental operations.

### 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 the New York Stock Exchange, NASDAQ or Chicago Board of Trade).

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

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

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, 2018:

| | **Level 1** | **Level 2** | **Total** |
|---|---|---|---|
| June 30, 2018 | | | |
| Equities | $3,929,162 | | $3,929,162 |
| Corporate bonds | | $1,585,272 | 1,585,272 |
| U.S. Treasury bonds | 228,556 | | 228,556 |
| Total as of June 30, 2018 | $4,157,718 | $1,585,272 | $5,742,990 |

The Foundation's hedge fund investments carried at fair value have not been categorized in the above fair value hierarchy in accordance with the NAV per share practical expedient as set forth by the Financial Accounting Standards Board in Topic 820, Fair Value Measurements.

### Notes 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 was collectible in monthly installments of $299 including interest at 6% per annum through June, 2020 with a remaining balance due at maturity of $43,092. The balance on the note was collected in full during the year ended June 30, 2018.

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 was collectible in monthly installments of $270 including interest at 6% per annum through April 2018 with a remaining balance of $43,756 due at maturity. The loan was collateralized by the property being financed. The remaining balance on the note was collected in full during the year ended June 30, 2018.

### Long lived assets held for sale

During fiscal year 2018, the Foundation's board of directors formally approved selling Century Plaza due to the time commitment and costs of repairs needed on the property. As a result, the property was reclassified in the 2018 financial statements from property, improvements and land to long-lived assets held for sale and the Foundation ceased recording depreciation on the property.

| | 2018 |
|---|---|
| Building and improvements | $1,176,826 |
| Less: accumulated depreciation | (738,232) |
| | 438,594 |
| Land | 254,740 |
| Long lived assets held for sale, net | $ 693,334 |

As described in rental operations, the Foundation has rental income from operating leases with various tenants of Century Plaza. Rental income was $187,662 for the year ended June 30, 2018. Expenses related to rental operations for the year ended June 30, 2018, was $166,378.

### Subsequent event

On August 30, 2018, the Foundation sold Century Plaza for $920,000 resulting in cash proceeds of $813,995. Since the value of the assets held for sale is greater than the proceeds from the sale, no adjustment was made to the value of the assets for fiscal year 2018.

Due to the sale of the property, rental income for fiscal year 2019 will decrease to approximately $38,000.

### Property and equipment

Property and equipment as of June 30, 2018, consists of the following:

| | 2018 |
|---|---|
| Building and improvements | |
| Furniture and equipment | $ 9,491 |
| | 9,491 |
| Less: accumulated depreciation | (9,149) |
| | 342 |
| Land | |
| Property and equipment, net | $ 342 |

The decrease in property and equipment for 2018 was related to the sale described in long-lived assets held for sale.

### 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, 2018, Arizona Western College Foundation designated $432,321 to meet matching and reinvestment 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. Beginning in 2036, the Foundation may use the corpus for any educational purposes.

The composition of and changes in the board designated endowment assets for the year ended June 30, 2018 were as follows:

| | 2018 |
|---|---|
| Title V balance, beginning of year | $423,092 |
| Increase in Title V designation | 9,229 |
| Title V balance, end of year | 432,321 |
| Other board designations | 35,519 |
| Total board designated net assets | $467,840 |

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

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

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

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

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

The summary of changes in endowment fund balances for the year ended June 30, 2018, follows:

| | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|
| Balance as of June 30, 2017 | $1,649,280 | $1,770,586 | $3,419,866 |
| Contributions | $ 169,039 | $ 30,147 | $ 199,186 |
| Investment return: | | | |
| Investment income | 37,568 | | 37,568 |
| Investment expenses | (14,610) | | (14,610) |
| Realized gains | 197,389 | | 197,389 |
| Unrealized losses | (170,733) | | (170,733) |
| Total investment return | 49,614 | | 49,614 |
| Appropriations | (211,519) | | (211,519) |
| Balance as of June 30, 2018 | $1,656,414 | $1,800,733 | $3,457,147 |

### Temporarily restricted net assets

The components of temporarily restricted net assets at June 30, 2018, are as follows:

| | 2018 |
|---|---|
| Endowments | $1,656,414 |
| Title V Dreams to Reality | 424,092 |
| Other investments | 1,341,865 |
| Total temporarily restricted net assets | $3,422,371 |

Other investments represents amounts from various other programs.

### In-kind contributions

In-kind contributions are comprised of personnel and facility related costs provided by Arizona Western College. The fair value of these contributions was $176,699 for the year ended June 30, 2018.

During the year ended June 30, 2018, the Foundation also received a stock contribution valued at $10,071.

### Subsequent events

Management evaluated subsequent events through October 11, 2018, the date the financial statements were available to be issued. Other than the sale described in long-lived assets held for sale, no events or transactions occurred after year-end that require additional disclosure or adjustment to the financial statements.

# 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, 2018

### Arizona State Retirement System

| | Reporting fiscal year (Measurement date) | | | | |
|---|---|---|---|---|---|
| | 2018 (2017) | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2014 through 2009 |
| District's proportion of the net pension liability | 0.234410% | 0.253700% | 0.258180% | 0.253189% | Information not available |
| District's proportionate share of the net pension liability | $36,516,509 | $40,949,729 | $40,216,044 | $37,463,394 | |
| District's covered payroll | $23,355,636 | $23,105,663 | $24,188,420 | $22,952,857 | |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 156% | 177% | 166% | 163% | |
| Plan fiduciary net position as a percentage of the total pension liability | 69.92% | 67.06% | 68.35% | 69.49% | |

# Yuma/La Paz Counties Community College District
## (Arizona Western College)
## Required supplementary information
## Schedule of the District's pension contributions
## June 30, 2018

**Arizona State Retirement System**

| | Reporting fiscal year | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2016** | **2015** | **2014** | **2013 through 2009** |
| Statutorily required contribution | $ 2,552,655 | $ 2,573,271 | $ 2,710,797 | $ 2,674,695 | $ 2,385,898 | Information |
| District's contributions in relation to the statutorily required contribution | 2,552,655 | 2,573,271 | 2,710,797 | 2,674,695 | 2,385,898 | not available |
| District's contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | |
| District's employee payroll | $ 23,654,893 | $ 23,355,636 | $ 23,105,663 | $ 24,188,420 | $ 22,952,827 | |
| District's contributions as a percentage of employee payroll | 10.79% | 11.02% | 11.73% | 11.06% | 10.39% | |

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# SINGLE AUDIT REPORT

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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, 2018, 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 18, 2018. 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses or 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2018-02 to be a material weakness.

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 2018-01 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.

Lindsey Perry, CPA, CFE
Auditor General

December 18, 2018

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
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, 2018. 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, 2018.

*Other matters*

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and that are described in the accompanying schedule of findings and questioned costs as items 2018-101 and 2018-102. Our opinion on each major federal program is not modified with respect to these matters.

## 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-101 and 2018-102, that we consider to be significant deficiencies.

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

## 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 compliance, and accordingly, we express no opinion on them.

Lindsey Perry, CPA, CFE
Auditor General

December 18, 2018

# 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? | **Yes** |
| **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)?** | **Yes** |

**Identification of major programs**

| CFDA number | Name of federal program or cluster |
|---|---|
| | WIOA Cluster: |
| 17.258 | WIOA Adult Program |
| 17.259 | WIOA Youth Activities |
| 17.278 | WIOA Dislocated Worker Formula Grants |
| | Student Financial Assistance Cluster: |
| 84.007 | Federal Supplemental Educational Opportunity Grants |
| 84.033 | Federal Work-Study Program |
| 84.063 | Federal Pell Grant Program |
| 84.268 | Federal Direct Student Loans |
| 84.031 | Higher Education Institutional Aid |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs | $750,000 |
| 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

## 2018-01

### Managing risk

**Condition and context—**The District's process for managing its risks did not include an overall risk-assessment process that included identifying, analyzing, and responding to the district-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT data and systems. Also, it did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls and evaluating and determining the business functions and IT systems that would need to be restored quickly if the District were impacted by disasters or other system interruptions.

**Criteria—**Effectively managing risk at the District includes an entity-wide risk-assessment process that involves members of the District's administration and IT management to determine the risks the District faces as it seeks to achieve its objectives to not only report accurate financial information and protect its IT systems and data but to also carry out its overall mission and service objectives. The process should provide the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the District might be subjected. To help ensure the District's objectives can be met, an annual risk assessment should include considering IT risks. For each identified risk, the District should analyze the identified risk and develop a plan to respond within the context of the District's defined objectives and risk tolerances. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information and the risk of losing the continuity of business operations in the event of a disaster or system interruption.

**Effect—**The District's administration and IT management may put the District's operations and IT systems and data at unintended and unnecessary risk.

**Cause—**The District focused its efforts on the day-to-day operations and did not prioritize performing a risk assessment of its IT security risks or performing a business impact analysis during the year. Further, the District developed data classification policies during the year but is still in the process of fully implementing procedures for inventorying and protecting sensitive information.

**Recommendations—**The District should identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. It also should plan for where resources should be allocated and where critical controls should be implemented. To help ensure it has effective entity-wide policies and procedures to achieve these objectives, the District should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. Responsible administrative officials and management over finance, IT, and other entity functions should be asked for input in the District's process for managing risk. The District should conduct the following as part of its process for managing risk:

- Perform an annual entity-wide IT risk-assessment process that includes evaluating risks such as risks of inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security
- Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the District holds to assess where stronger access and security controls may be needed to protect data in accordance with state statutes and federal regulations.

- Evaluate and determine the business functions and IT systems that would need to be restored quickly given the potential impact disasters or other IT system interruptions could have on critical organizational functions such as student services and operations such as payroll and accounting, and determine how to prioritize and plan for recovery.

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 2017-01.

## 2018-02

### Information technology (IT) controls—access, configuration and change management, security, and contingency planning

**Condition and context—**The District's control procedures were not sufficiently designed, documented, and implemented to respond to risks associated with its IT systems and data. The District lacked adequate procedures over the following:

- **Restricting access to its IT systems and data—**Procedures did not consistently help prevent or detect unauthorized or inappropriate access.
- **Configuring systems securely and managing system changes—**Procedures did not ensure IT systems were securely configured and all changes were adequately managed.
- **Securing systems and data—**IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.
- **Updating a contingency plan—**Plan lacked key elements related to restoring operations in the event of a disaster or other system interruption.

**Criteria—**The District should have effective internal controls to protect its IT systems and help ensure the integrity and accuracy of the data it maintains.

- **Logical and physical access controls—**Help to ensure systems and data are accessed by users who have a need, access granted to systems and data is appropriate, the District monitors and reviews access to key systems and data, and the District protects the physical access to its system infrastructure.
- **Well-defined documented configuration management process—**Ensures the District's IT systems are configured securely and that changes to the systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the system security or operations. Separation of responsibilities is an important control for system changes; the same person who has authority to make system changes should not put the change into production. If those responsibilities cannot be separated, a post-implementation review should be performed to ensure the change was implemented as designed and approved.
- **IT security internal control policies and procedures—**Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.
- **Comprehensive documented and tested contingency plan—**Provides the preparation necessary to place the plan in operation and helps to ensure business operations continue and systems and data can be recovered in the event of a disaster, system or equipment failure, or other interruption.

**Effect—**There is an increased risk that the District may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and the loss of confidentiality and integrity of systems and data. It also increases the District's risk of not being able to effectively continue daily operations and completely and accurately recover vital IT systems and data in the event of a disaster or system interruption.

**Cause—**The District focused its efforts on the day-to-day operations and did not prioritize its review of its IT policies and procedures to ensure they met IT standards. Additionally, although the District updated part of its policies and procedures at the end of the year, some of these were still lacking critical elements and/or were not finalized and fully implemented.

**Recommendations—**To help ensure the District has effective policies and procedures over its IT systems and data, the District should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. To help achieve these control objectives, the District should develop, document, and implement control procedures in each IT control area described below:

**Access**

- Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
- Remove terminated employees' access to IT systems and data.
- Review all other account access to ensure it remains appropriate and necessary.
- Evaluate the use and appropriateness of accounts shared by two or more users and manage the credentials for such accounts.
- Enhance authentication requirements for IT systems.
- Manage employee-owned and entity-owned electronic devices connecting to the District's systems and data.
- Manage remote access to the District's systems and data.
- Review data center physical access periodically to determine whether individuals still need it.

**Configuration and change management**

- Update and implement its change management process.
- Review proposed changes for appropriateness, justification, and security impact.
- Document changes, testing procedures and results, change approvals, and post-change review.
- Test changes prior to implementation.
- Configure IT resources appropriately and securely and maintain configuration settings.

**Security**

- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
- Prepare and implement a security-incident-response plan making it clear how incidents should be reported and handled.
- Provide all employees ongoing training on IT security risks and their responsibilities to ensure systems and data are protected.
- Perform IT vulnerability scans and remediate vulnerabilities in accordance with a remediation plan.
- Identify, evaluate, and apply patches in a timely manner.
- Develop, document, and follow a process for awarding IT vendor contracts.

**Contingency planning**

- Update the contingency plan and ensure it includes all required elements to restore critical operations, including being prepared to enable moving critical operations to a separate alternative site if necessary.
- Test the contingency plan.
- Train staff responsible for implementing the contingency plan.
- Back up and securely maintain backups of systems and data.

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 2017-02 (access), 2017-03 (configuration and change management), 2017-04 (IT security), and 2017-05 (contingency planning).

## Federal award findings and questioned costs

### 2018-101

| | |
|---|---|
| **Cluster name:** | **Student Financial Assistance Cluster** |
| **CFDA numbers and names:** | 84.007 **Federal Supplemental Educational Opportunity Grants**<br>84.033 **Federal Work-Study Program**<br>84.063 **Federal Pell Grant Program**<br>84.268 **Federal Direct Student Loans** |
| **Award numbers and years:** | P007A170102; P033A170102; P063P171062; P268K181062<br>July 1, 2017 through June 30, 2018 |
| **Federal agency:** | **U.S. Department of Education** |
| **Compliance requirements:** | Activities allowed or unallowed and special tests and provisions |
| **Questioned costs:** | $19,956 |

**Condition and context—**The District did not obtain U.S. Department of Education's (USDOE) approval or license and accreditation by the District's accrediting agency for its San Luis Technology Institute and Massage Therapy Centers. These locations provided students with at least 50 percent of their education program and were added after the District received its eligibility designation. For the fiscal year ended June 30, 2018, the District awarded $19,956 of federal student financial assistance to students at these locations.

**Criteria—**According to 34 Code of Federal Regulations (CFR) §§600.10(b)(3), 600.20(e)(4), and 600.20(c)(1), once the District receives its eligibility designation, the eligibility does not extend to any new location that provides at least 50 percent of an education program unless USDOE approves the location. Alternatively, if the location is licensed and accredited and the District has reported the location to USDOE, the District is not required to get USDOE approval. Further, in accordance with 2 CFR §200.303, the District must establish and maintain effective internal control over its federal awards that provides reasonable assurance that the District is managing the awards in compliance with federal statutes, regulations, and award terms and conditions.

**Effect—**The District did not comply with the institutional eligibility requirements of 34 CFR §§600.10(b)(3), 600.20(e)(4), and 600.20(c)(1) and disbursed $19,956 in federal student financial assistance to students at an ineligible location.

**Cause—**The District did not have adequate policies and procedures in place to fully understand the federal requirements to ensure USDOE approval or license and accreditation was obtained for a new location that provided at least 50 percent of a student's education program.

**Recommendation—**The District should develop and implement written policies and procedures to help ensure it does not award student financial assistance before it obtains approval from USDOE or license and accreditation from its accrediting agency for any location added after the District's eligibility designation when that location provides at least 50 percent of a student's education program.

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

## 2018-102

| | |
|---|---|
| **Cluster name:** | **Student Financial Assistance Cluster** |
| **CFDA numbers and names:** | 84.007 **Federal Supplemental Educational Opportunity Grants**<br>84.033 **Federal Work-Study Program**<br>84.063 **Federal Pell Grant Program**<br>84.268 **Federal Direct Student Loans** |
| **Award numbers and years:** | P007A170102; P033A170102; P063P171062; P268K181062<br>July 1, 2017 through June 30, 2018 |
| **Federal agency:** | **U.S. Department of Education** |
| **Compliance requirements:** | Eligibility |
| **Questioned costs:** | $836 |

**Condition and context—**The District did not have adequate policies and procedures to ensure that it makes Federal Supplemental Educational Opportunity Grants (FSEOG) awards to eligible recipients based on the program's selection criteria. Specifically, two of five FSEOG recipients tested did not have the lowest expected family contribution (EFC).

**Criteria—**In accordance with 34 CFR §676.10, the District must select FSEOG recipients from eligible students with the lowest EFC who also receive Federal Pell Grants as its first selection group. If the District has FSEOG monies remaining after giving FSEOG awards to all Federal Pell Grant recipients in total, the District must then select students with the lowest EFC who will not receive a Pell Grant as its second selection group. Further, in accordance with 2 CFR §200.303, the District must establish and maintain effective internal control over its federal awards that provides reasonable assurance that the District is managing the awards in compliance with federal statutes, regulations, and award terms and conditions.

**Effect—**The District did not comply with 34 CFR §676.10 and inappropriately awarded $836 in FSEOG monies to students who did not have the lowest EFC as required. Consequently, students with lower EFC should have been awarded the $836 of FSEOG monies.

**Cause—**The District's policies and procedures did not ensure that the District selected FSEOG recipients on the basis of lowest EFC and Pell Grant participation as the program required.

**Recommendation—**To help ensure that the District complies with 34 CFR §676.10, the District should establish documented policies and procedures and provide training to employees that include using the FSEOG selection criteria when making awards to recipients.

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

DISTRICT SECTION

# Yuma/La Paz Counties Community College District
## (Arizona Western College)
## Schedule of expenditures of federal awards
## Year ended June 30, 2018

| 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 | | | | $ 27,241 | |
| **Department of the Interior** | | | | | | |
| 15 808 | US Geological Survey—Research and Data Collection | | | | 11,926 | |
| **Department of Labor** | | | | | | |
| 17 258 | WIOA Adult Program | WIOA Cluster | Yuma Private Industry Council, Inc | AH2017-07-01/Adult Full | 178,588 | |
| 17 259 | WIOA Youth Activities | WIOA Cluster | Yuma Private Industry Council, Inc | AH2017-07-01/OSY, AH2017-07-01/OSY/ABE/GED | 248,058 | |
| 17 278 | WIOA Dislocated Worker Formula Grant | WIOA Cluster | Yuma Private Industry Council, Inc | AH2017-07-01/DWFull | 44,223 | |
| | *Total WIOA Cluster* | | | | 470,869 | |
| | **Total Department of Labor** | | | | 470,869 | |
| **National Science Foundation** | | | | | | |
| 47 076 | Education and Human Resources | | Science Foundation Arizona | STEM 603-14/DUE-1400687 | 11,605 | |
| **Small Business Administration** | | | | | | |
| 59 037 | Small Business Development Centers | | Maricopa County Community College District | SBHQ-17-B0026, SBAHQ-18-B0042 | 98,211 | |
| **Department of Education** | | | | | | |
| 84 007 | Federal Supplemental Educational Opportunity Grants | Student Financial Assistance Cluster | | | 384,472 | |
| 84 033 | Federal Work-Study Program | Student Financial Assistance Cluster | | | 296,033 | |
| 84 063 | Federal Pell Grant Program | Student Financial Assistance Cluster | | | 13,424,654 | |
| 84 268 | Federal Direct Student Loans | Student Financial Assistance Cluster | | | 844,364 | |
| | *Total Student Financial Assistance Cluster* | | | | 14,949,523 | |
| 84 031 | Higher Education—Institutional Aid | | | | 2,248,298 | $ 146,542 |
| 84 042 | TRIO—Student Support Services | TRIO Cluster | | | 351,870 | |
| 84 044 | TRIO—Talent Search | TRIO Cluster | | | 269,802 | |
| 84 047 | TRIO—Upward Bound | TRIO Cluster | | | 330,416 | |
| | *Total TRIO Cluster* | | | | 952,088 | |
| 84 048 | Career and Technical Education—Basic Grants to States | | Arizona Department of Education | 17FCTDBG-712101-20A, 17FCTPSG-712101-43B, 18FCTDBG-812101-20A, 18FCTPSG-812101-43B | 264,133 | |
| 84 149 | Migrant Education—College Assistance Migrant Program | | | | 416,247 | |
| | **Total Department of Education** | | | | 18,830,289 | 146,542 |
| | **Total expenditures of federal awards** | | | | $ 19,450,141 | $ 146,542 |

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, 2018

## 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, 2018. 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.

## 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 2018 *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 18, 2018

Lindsey Perry, Auditor General
Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

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 our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Michelle L Landis, MPA, CPA, CMA
Director of Financial Services and Controller

# Yuma/La Paz Counties Community College District
## (Arizona Western College)
## Corrective action plan
## Year ended June 30, 2018

# Financial statement findings

## 2018-01

### Managing risk

Contact: Chief Information Officer
Anticipated completion date: September 2019

The District will conduct annual risk assessments. The risk assessments will establish risk measurement criteria to identify and prioritize risk and detail the remediation process. The results of the annual risk assessments will be provided to Cabinet members and documented in an information technology (IT) service desk ticket.

The District will procure software to identify and inventory data. A committee comprised of IT personnel, data stewards, and other stakeholders will determine the classification system and identify the methods for protecting data. The District will also evaluate where encryption may be necessary. Data Loss Prevention (DLP) software will be put in place to enforce these policies.

The District will prioritize critical services and documents recovery procedures. The Document Recovery/Business Continuity (DR/BC) plan will be updated to include this information.

For each of the processes, policies and procedures will be updated.

## 2018-02

### Information technology (IT) controls—access, configuration and change management, security, and contingency planning

Contact: Chief Information Officer
Anticipated completion date: Partially completed by February 2019; fully completed by December 2019

**Access**

A review of user access will be conducted in accordance with the District's policies and procedures. The review process will be documented in IT service desk tickets. Business workflows will be utilized to allow for automation of employee access changes. Policies and procedures will be updated to include the authorization required before granting Domain Administrator access.

IT policies and procedures will be updated to include steps to review contractor and affiliate account access. Results are to be document in an IT service desk ticket.

IT policies and procedures will be updated to identify when shared accounts may be used, the approval required, and include steps describing periodic review of shared account access. Results are to be documented in an IT service desk ticket.

The District will evaluate the use of encryption of data residing on entity-owned devices. Employee-owned devices will be limited to public internet access only and will not be connected to the private network. An authenticated VPN connection will be required to access to private network resources.

The District will implement a new VPN solution for remote access from employee-owned devices. Policies and procedures will be updated to include the process of requesting and the authorization of remote access via an IT service desk ticket.

A minimum of two Service Desk tickets per year will be generated to document the process of reviewing users with remote access.

Password policies will be enforced for all user accounts. The District will enforce the policy that accounts with a password length of fewer than 17 characters will adhere to the expiration period.

For all of the above, the appropriate IT policies and procedures will be revised and updated.

**Configuration and change management**

IT policies and procedures will be updated to identify the types of changes that require a formal change management ticket and the steps for creating and processing these tickets. The change management ticket will be reviewed for appropriateness, justification, and the security impact. The tickets will be reviewed before approval for the change is recorded within the ticket. Approvals, including those from data stewards where applicable, will be recorded.

The testing process and results will be documented within the change management ticket. For Colleague systems, testing confirmation from data stewards will be documented. Any exceptions will require written approval within the ticket.

IT policies and procedures will be updated to include the types of system baseline configurations to maintain and the process for storing these configurations and/or configuration procedures.

**Security**

The District will use security information and event management (SIEM) software to provide real-time analysis and alerting of user and system activity. IT policies and procedures will be updated to reflect these changes.

A security-incident-management policy will be updated to include: established metrics for measuring the response capability, detection methods, and required reporting per Arizona Revised Statutes. In addition, the District will define how to assist users in handling security incidents and educating users on how to report incidents.

The District shall define a security awareness training program for all employees, frequency of updates to the training topics, and the required training before granting user access to certain systems.

The District will conduct monthly internal and external vulnerability scans. The results will be reviewed and stored according to policy. IT service desk tickets will be created for results requiring remediation. The software's categorization will be used to assess risk and determine priority. The remediation plan along with identified responsible personnel will be documented in the IT policies and procedures.

IT policies and procedures will be updated to include standard patch timelines for desktops and servers, and which routine patches are exempt from the formal change management procedures.

Aligning with AWC's purchasing guidelines, IT policies and procedures will be updated to include steps for awarding IT vendor contracts. The security requirements and performance monitoring requirements of awarded IT vendor contracts will be documented in AWC’s IT policies and procedures. IT vendors will be required to provide SSAE16 audit reports.

**Contingency planning**
The DR/BC plan will be updated to include an outline for moving or restoring critical services remotely, whether using cloud services or an alternative site.

The District will conduct annual DR/BC tests. The test procedures and results will be recorded in an IT service desk ticket. Ellucian-hosted systems will be tested annually by way of a full restoration of a production system.

Training will be conducted in concert with the annual tests. Attendance will be recorded using one or more of the following systems: Service Desk, Colleague, or email.

IT policies and procedures will be updated to include the responsible personnel, process and frequency of critical system backups, along with the restore process. When a third party is responsible for a systems backup or replication, the process will be document. The District will determine which data may require encryption and how remote backups will be managed.

# Federal award findings and questioned costs

## 2018-101

| | |
|---|---|
| **Cluster Name:** | **Student Financial Assistance Cluster** |
| **CFDA number and program name:** | 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** |

**Name(s) of contact person(s): Director of Financial Aid**
**Anticipated completion date: Fully completed by February 2019**

The Financial Aid Office at Arizona Western College has updated its internal financial aid policies and procedures to ensure USDOE approval or license and accreditation is obtained for a new location that provides at least 50 percent of a student’s education program. Semi-annually, the Financial Aid Director will meet with the Vice President of Learning Services to discuss any program and/or location changes.

# Yuma/La Paz Counties Community College District
## (Arizona Western College)
## Corrective action plan
## Year ended June 30, 2018

## 2018-102

**Cluster Name:** **Student Financial Assistance Cluster**
**CFDA number and program name:** 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**
**Name(s) of contact person(s): Director of Financial Aid**
**Anticipated completion date: Fully completed by December 2018**

The Financial Aid Office at Arizona Western College has updated its internal financial aid policies and procedures to ensure compliance with 34 CFR 676.10 when awarding FSEOG. Training documents have been updated to reflect the FSEOG awarding process. Training to all employees will occur on an annual basis.

ARIZONA WESTERN COLLEGE

December 18, 2018

Lindsey Perry, Auditor General
Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

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. This schedule also includes the status of audit findings reported in the prior audit's summary schedule of prior audit findings that were not corrected.

Sincerely,

Michelle L Landis, MPA, CPA, CMA
Director of Financial Services and Controller

# Yuma/La Paz Counties Community College District
**(Arizona Western College)**
**Summary schedule of prior audit findings**
**Year ended June 30, 2018**

## Status of financial statement findings

The District should improve its risk assessment process to include information technology security
Finding number: 2017-01, 2016-01, 2015-04, 2015-03, 2014-04, 2014-03
Status: Not corrected

Efforts to implement the prior year's corrective action plan were significantly impacted by a reorganization of the IT Services & Support division. Progress was made toward innovations in IT infrastructure that moved the college forward in its corrective action plan and provided the foundation for future action but resource constraints during recruiting; the requirements of operations and maintenance of existing systems; and efforts to research, integrate, and deploy new systems taxed the division's ability to deliver new solutions. These factors have been taken into consideration in developing an action plan for the next year.

The District should improve access controls over its information technology resources
Finding number: 2017-02, 2016-02, 2015-01, 2014-01, 2013-01, 12-01, 11-01, 10-01
Status: Not corrected

Efforts to implement the prior year's corrective action plan were significantly impacted by a reorganization of the IT Services & Support division. Progress was made toward innovations in IT infrastructure that moved the college forward in its corrective action plan and provided the foundation for future action but resource constraints during recruiting; the requirements of operations and maintenance of existing systems; and efforts to research, integrate, and deploy new systems taxed the division's ability to deliver new solutions. These factors have been taken into consideration in developing an action plan for the next year.

The District should improve its configuration management processes over its information technology resources
Finding number: 2017-03, 2016-03, 2015-02, 2014-02
Status: Not corrected

Efforts to implement the prior year's corrective action plan were significantly impacted by a reorganization of the IT Services & Support division. Progress was made toward innovations in IT infrastructure that moved the college forward in its corrective action plan and provided the foundation for future action but resource constraints during recruiting; the requirements of operations and maintenance of existing systems; and efforts to research, integrate, and deploy new systems taxed the division's ability to deliver new solutions. These factors have been taken into consideration in developing an action plan for the next year.

The District should improve security over its information technology resources
Finding number: 2017-04, 2016-04, 2015-03, 2014-03
Status: Not corrected

Efforts to implement the prior year's corrective action plan were significantly impacted by a reorganization of the IT Services & Support division. Progress was made toward innovations in IT infrastructure that moved the college forward in its corrective action plan and provided the foundation for future action but resource constraints during recruiting; the requirements of operations and maintenance of existing systems; and efforts to research, integrate, and deploy new systems taxed the division's ability to deliver new solutions. These factors have been taken into consideration in developing an action plan for the next year.

The District should improve its contingency planning procedures for its information technology resources
Finding number: 2017-05, 2016-05, 2015-04, 2014-04
Status: Not corrected

Efforts to implement the prior year's corrective action plan were significantly impacted by a reorganization of the IT Services & Support division. Progress was made toward innovations in IT infrastructure that moved the college forward in its corrective action plan and provided the foundation for future action but resource constraints during recruiting; the requirements of operations and maintenance of existing systems; and efforts to research, integrate, and deploy new systems taxed the division's ability to deliver new solutions. These factors have been taken into consideration in developing an action plan for the next year.

ARIZONA
Auditor General
Making a Positive Difference