



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

**Cochise County Community  
College District**

Year Ended June 30, 2002

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**Debra K. Davenport**  
Auditor General

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Cochise County Community College District  
Single Audit Reporting Package  
June 30, 2002

Table of Contents	Page
<b>Financial Section</b>	
Independent Auditors' Report	
Management's Discussion and Analysis	i
Statement of Net Assets	1
Statement of Revenues, Expenses, and Changes in Net Assets	2
Statement of Cash Flows	3
Notes to Financial Statements	5
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards	13
<b>Single Audit Section</b>	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	18
<b>Schedule of Findings and Questioned Costs</b>	
Summary of Auditors' Results	20



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

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

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Governing Board of  
Cochise County Community College District

We have audited the accompanying basic financial statements of Cochise County Community College District as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Cochise County Community College District as of June 30, 2002, and the changes in financial position and cash flows of the District for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the District adopted the provisions of GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, for the year ended June 30, 2002, to implement a new financial reporting model. Also, as described in Note 2, the District raised its capitalization threshold for capital equipment. This represents a change in the application of an accounting principle.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport  
Auditor General

March 7, 2003

# Cochise County Community College District Management's Discussion and Analysis For the Year Ended June 30, 2002

This section of Cochise County Community College District's basic financial statements presents management's discussion and analysis of the District's financial activity for the year ended June 30, 2002. Please read it in conjunction with the District's financial statements, which begin on page 1.

Since this is an implementation year for financial reporting under Governmental Accounting Standards Board (GASB) Statement No. 35, only one year of financial data is presented. In future years, a comparative analysis of financial data will be presented.

## Basic Financial Statements

Beginning with fiscal year 2001-02, the District prepares its annual financial statements in accordance with new pronouncements issued by the Governmental Accounting Standards Board (GASB), the authoritative body for establishing Generally Accepted Accounting Principles (GAAP) for state and local governments, including public institutions of higher education. These new pronouncements permit public colleges and universities to use the guidance for special-purpose governments engaged only in business-type activities, in their separately issued financial statements. As such, the presentation format has shifted from a columnar fund group format to a consolidated, single-column, entity-wide format – similar to the type of financial statements one might encounter from a typical business enterprise or a not-for-profit organization. The basic financial statements consist of the following:

*The Statement of Net Assets* reflects the financial position of the District at June 30, 2002. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represents the institutional equity or ownership in the total assets of the District.

*The Statement of Revenues, Expenses, and Changes in Net Assets* reflects the results of operations and other changes for the year ended June 30, 2002. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net assets amount – which is shown on the *Statement of Net Assets* described above.

*The Statement of Cash Flows* reflects the inflows and outflows of cash and cash equivalents for the year ended June 30, 2002. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount – which is shown on the *Statement of Net Assets* described above. In addition, this statement reconciles cash flows used for operating activities to operating loss on the *Statement of Revenues, Expenses, and Changes in Net Assets* described above.

Cochise County Community College District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2002

Condensed Financial Information

**Statement of Net Assets  
As of June 30, 2002**

<u>Assets</u>	
Current assets	\$ 8,289,449
Noncurrent assets, other than capital assets	1,245,980
Capital assets, net	<u>13,142,979</u>
Total assets	<u>22,678,408</u>
 <u>Liabilities</u>	
Current liabilities	3,057,434
Noncurrent liabilities	<u>1,991,000</u>
Total liabilities	<u>5,048,434</u>
 <u>Net Assets</u>	
Invested in capital assets, net of related debt	11,442,979
Restricted	1,112,403
Unrestricted	<u>5,074,592</u>
Total net assets	<u>\$17,629,974</u>

Invested in capital assets, net of related debt, and unrestricted net assets represent 64.9 percent and 28.8 percent of total net assets, respectively.

Cochise County Community College District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2002

**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2002**

Tuition and fees (net of scholarship allowances)	\$ 2,830,410
Grants and contracts	6,608,123
Other operating revenues	<u>1,019,140</u>
Total operating revenues	<u>10,457,673</u>
Total operating expenses	<u>27,319,131</u>
Operating loss	<u>(16,861,458)</u>
Nonoperating revenues (expenses)	
Property taxes	8,744,747
State appropriations	8,133,700
Investment income	197,523
Other nonoperating revenues	578,737
Interest expense on debt	<u>(107,570)</u>
Net nonoperating revenues	<u>17,547,137</u>
Capital appropriations	<u>699,900</u>
Increase in net assets	1,385,579
Total net assets, July 1, 2001, as restated	<u>16,244,395</u>
Total net assets, June 30, 2002	<u>\$ 17,629,974</u>

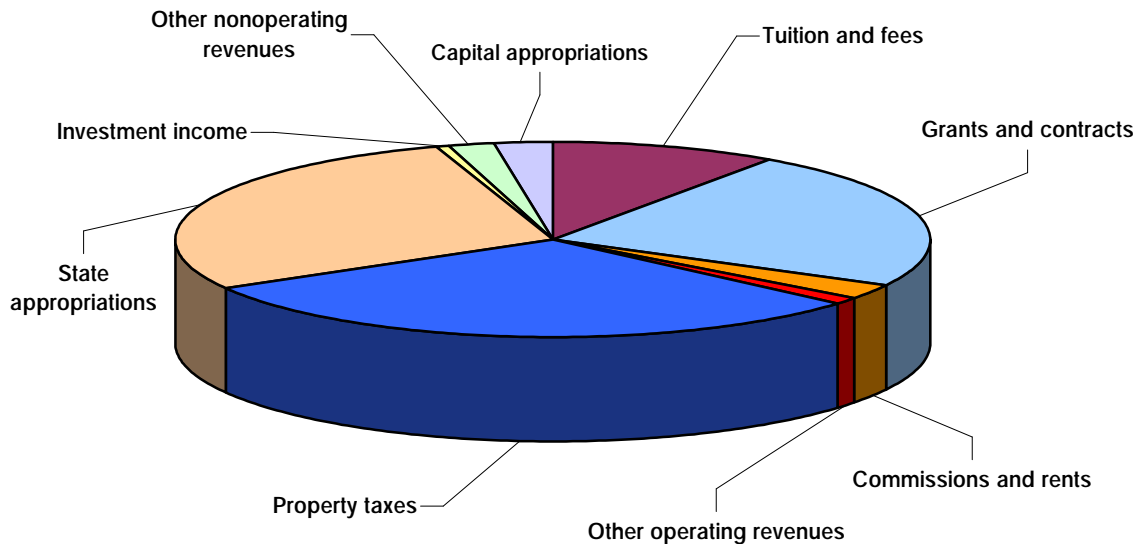


Cochise County Community College District  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2002

The following schedule presents a summary of revenues for the fiscal year ended June 30, 2002.

<u>Operating revenues</u>		<u>% of Total</u>
Tuition and fees (net of scholarship allowances)	\$ 2,830,410	10%
Grants and contracts	6,608,123	23%
Commissions and rents	696,307	2%
Other operating revenues	<u>322,833</u>	<u>1%</u>
Total operating revenues	<u>10,457,673</u>	36 %
 <u>Nonoperating revenues</u>		
Property taxes	8,744,747	30%
State appropriations	8,133,700	28%
Investment income	197,523	1%
Other nonoperating revenues	<u>578,737</u>	<u>2%</u>
Total nonoperating revenues	<u>17,654,707</u>	61%
 Capital appropriations	 <u>699,900</u>	 <u>3%</u>
 Total revenues	 <u>\$28,812,280</u>	 <u>100%</u>

**Revenues by Source**

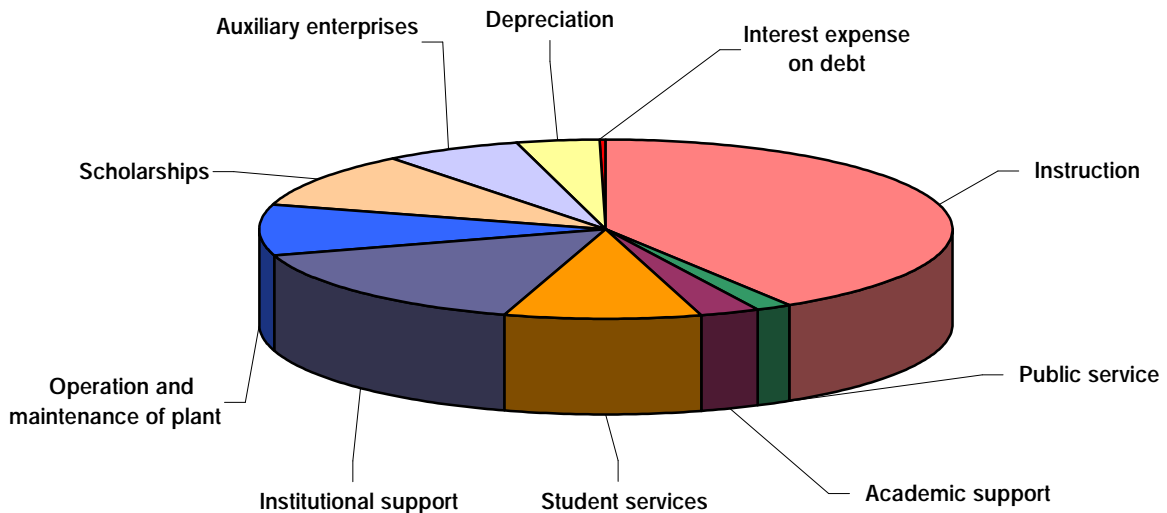


Cochise County Community College District  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2002

The following schedule presents a summary of expenses for the fiscal year ended June 30, 2002.

<u>Operating expenses</u>		<u>% of Total</u>
Education and general:		
Instruction	\$11,282,892	41%
Public service	412,659	2%
Academic support	829,502	3%
Student services	2,463,364	9%
Institutional support	4,270,073	15%
Operation and maintenance of plant	2,529,219	9%
Scholarships	2,774,394	10%
Auxiliary enterprises	1,693,613	6%
Depreciation	<u>1,063,415</u>	<u>4%</u>
Total operating expenses	<u>27,319,131</u>	99%
 <u>Nonoperating expenses</u>		
Interest expense on debt	<u>107,570</u>	<u>1%</u>
 Total expenses	 <u>\$27,426,701</u>	 <u>100%</u>

**Expenses by Program**



Cochise County Community College District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2002

## Capital Assets

Below is a summary of the capital assets, net of depreciation, as of June 30, 2002.

<b>Capital Assets</b>	
Land	\$ 495,580
Buildings	9,518,570
Equipment	1,350,616
Improvements other than buildings	1,517,039
Library books	<u>261,174</u>
Total Capital Assets, net	<u>\$13,142,979</u>

As of July 1, 2001, the District changed its equipment capitalization threshold from \$1,000 to \$5,000. This change resulted in a \$2,395,219 write-off in the equipment category recorded as a restatement of beginning net assets. In addition, accumulated depreciation of \$14,446,535 was recorded as a restatement of beginning net assets to reflect the effect on capital assets from the implementation of GASB Statement No. 35. The remaining restatement to capital assets of \$1,208,932 was due to the correction of a prior year understatement of capital assets.

## Long-Term Debt

At June 30, 2002, the District had one certificate of participation issue outstanding totaling \$1,700,000. No new debt was issued during the fiscal year. See Note 5 on page 10 for further details.

## Current Economic Conditions

Despite unfavorable economic conditions nation-wide, Cochise County realized an overall 5.8 percent increase in property values for the year, thereby increasing the College's property tax revenue. However, the District was still forced to make mid-year expense reductions and implement other efficiency initiatives due to the following revenue shortfalls:

- State operating and capital appropriations decreased by \$330,100.
- Declining interest rates on the District's investments resulted in an approximately \$200,000 decrease in investment income.

## Current Factors Having Probable Future Financial Significance

During the 2001-02 fiscal year, state appropriations to the District were decreased mid-year by \$330,100, or approximately 3.6 percent. Financial support from the State is projected to continually decline. An additional 1.4 percent decrease is projected for the 2002-03 fiscal year with possible further cuts in future years. The District is continuing to implement efficiency measures and strategies to increase other revenue sources in order to offset this projected shortfall and maintain services.

Cochise County Community College District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2002

## Requests for Information

This discussion and analysis is designed to provide a general overview of the Cochise County Community College District's finances for all those with an interest in such matters. Questions concerning any of the information provided in the basic financial statements or requests for additional financial information should be addressed to the Office of the Controller, Cochise County Community College District, 4190 West Highway 80, Douglas, AZ 85607.

Cochise County Community College District  
Statement of Net Assets  
June 30, 2002

**Assets**

Current assets:

Cash and cash equivalents	\$ 5,865,480
Receivables:	
Accounts (less allowances of \$256,973)	1,132,955
Property taxes (less allowances of \$300,795)	569,173
Government grants and contracts	239,713
Interest	8,924
Other	13,120
Inventories	310,513
Prepaid items	<u>149,571</u>
Total current assets	<u>8,289,449</u>

Noncurrent assets:

Restricted assets:	
Cash and cash equivalents	1,194,616
Cash and investments held by trustee	51,364
Capital assets, not being depreciated	495,580
Capital assets, being depreciated, net	<u>12,647,399</u>
Total noncurrent assets	<u>14,388,959</u>
Total assets	<u>22,678,408</u>

**Liabilities**

Current liabilities:

Accounts payable	419,045
Accrued payroll and employee benefits	948,779
Interest payable	51,125
Deposits held in custody for others	171,307
Deferred revenues	812,178
Current portion of compensated absences payable	450,000
Current portion of long-term debt	<u>205,000</u>
Total current liabilities	<u>3,057,434</u>

Noncurrent liabilities:

Compensated absences payable	496,000
Long-term debt	<u>1,495,000</u>
Total noncurrent liabilities	<u>1,991,000</u>
Total liabilities	<u>5,048,434</u>

**Net Assets**

Invested in capital assets, net of related debt	11,442,979
Restricted:	
Expendable:	
Grants and contracts	262,010
Debt service	134,424
Capital projects	715,969
Unrestricted	<u>5,074,592</u>
Total net assets	<u>\$ 17,629,974</u>

See accompanying notes to financial statements.

Cochise County Community College District  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year Ended June 30, 2002

Operating revenues:	
Tuition and fees (net of scholarship allowances of \$1,726,051)	\$ 2,830,410
Government grants and contracts	6,607,112
Private grants and contracts	1,011
Bookstore income	106,697
Food service income	339,556
Dormitory rentals and fees	250,054
Other	<u>322,833</u>
Total operating revenues	<u>10,457,673</u>
Operating expenses:	
Educational and general:	
Instruction	11,282,892
Public service	412,659
Academic support	829,502
Student services	2,463,364
Institutional support	4,270,073
Operation and maintenance of plant	2,529,219
Scholarships	2,774,394
Auxiliary enterprises	1,693,613
Depreciation	<u>1,063,415</u>
Total operating expenses	<u>27,319,131</u>
Operating loss	<u>(16,861,458)</u>
Nonoperating revenues (expenses):	
Property taxes	8,744,747
State appropriations	8,133,700
Share of state sales taxes	540,737
Investment income	197,523
Gain on disposal of capital asset	38,000
Interest expense on debt	<u>(107,570)</u>
Total nonoperating revenues	<u>17,547,137</u>
Income before other revenues, expenses, gains, or losses	<u>685,679</u>
Capital appropriations	<u>699,900</u>
Increase in net assets	1,385,579
Total net assets, July 1, 2001, as restated	<u>16,244,395</u>
Total net assets, June 30, 2002	<u>\$ 17,629,974</u>

See accompanying notes to financial statements.

Cochise County Community College District  
Statement of Cash Flows  
Year Ended June 30, 2002

Cash flows from operating activities:	
Tuition and fees	\$ 2,803,402
Grants and contracts	6,535,655
Bookstore receipts	89,919
Food services receipts	343,448
Dormitory rentals and fees	253,867
Other receipts	593,276
Payments to suppliers and providers of goods and services	(4,837,924)
Payments to employees	(18,068,131)
Payments for scholarships	(2,841,719)
Other payments	(414,708)
Net cash used for operating activities	<u>(15,542,915)</u>
Cash flows from noncapital financing activities:	
Property taxes	8,719,140
State appropriations	8,133,700
Share of state sales taxes	451,954
Federal family education loan receipts	1,750,318
Federal family education loan disbursements	(1,767,479)
Funds held for others received	439,527
Funds held for others disbursed	(419,284)
Net cash provided by noncapital financing activities	<u>17,307,876</u>
Cash flows from capital and related financing activities:	
Capital appropriations	699,900
Principal paid on capital debt	(190,000)
Interest paid on capital debt	(107,570)
Purchases of capital assets	(849,652)
Net cash used for capital and related financing activities	<u>(447,322)</u>
Cash flows from investing activities:	
Interest received on investments	<u>211,143</u>
Net cash provided by investing activities	<u>211,143</u>
Net increase in cash and cash equivalents	1,528,782
Cash and cash equivalents, July 1, 2001	<u>5,531,314</u>
Cash and cash equivalents, June 30, 2002	<u>\$ 7,060,096</u>

(Continued)

See accompanying notes to financial statements.

Cochise County Community College District  
Statement of Cash Flows  
Year Ended June 30, 2002  
(Continued)

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (16,861,458)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,063,415
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(1,104,744)
Government grants and contracts receivable	(132,459)
Inventories	(50,117)
Prepaid items	(87,431)
Accounts payable	194,291
Accrued payroll and employee benefits	83,583
Deposits held in custody for others	97,301
Deferred revenues	734,382
Decrease in:	
Other receivables	562,090
Compensated absences payable	(41,768)
Net cash used for operating activities	<u>\$ (15,542,915)</u>
Noncash investing, capital, and noncapital financing activities:	
Gain on disposal of capital asset	\$ 38,000
Capital assets donated to others	32,947

See accompanying notes to financial statements.



Cochise County Community College District  
Notes to Financial Statements  
June 30, 2002

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Cochise County Community College 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). During the year ended June 30, 2002, the District implemented GASB Statement No. 35, which prescribes a new reporting model for public colleges within the reporting guidelines of GASB Statement No. 34, as amended by GASB Statement No. 37. The District also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

**A. Reporting Entity**

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity.

The financial activities of the Cochise College Foundation are not included in the District's financial statements. The Foundation is a nonprofit corporation controlled by a separate board of directors. The Foundation's goals are to promote educational programs and District objectives.

**B. Basis of Presentation and Accounting**

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy District obligations. Invested in capital assets net of related debt represents the net value of capital assets less the debt incurred to acquire or construct the asset. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in net assets provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Generally, revenues generated by the District for instruction and public service are considered to be operating revenues. Other revenues used for instruction and public service, such as property taxes and state appropriations, are not generated from operations and are considered to be nonoperating revenues.

Cochise County Community College District  
Notes to Financial Statements  
June 30, 2002

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

It is the District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The District follows FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

### C. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, investments in the State Treasurer's Local Government Investment Pool, and highly liquid investments. Investments are stated at fair value.

### D. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

### E. Capital Assets

Capital assets are reported at actual cost or estimated historical cost if historical records are not available. Donated assets are reported at estimated fair value at the time received.

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

Cochise County Community College District  
Notes to Financial Statements  
June 30, 2002

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$5,000	N/A	N/A
Improvements other than buildings	\$5,000	Straight line	15 years
Buildings	\$5,000	Straight line	40 years
Equipment	\$5,000	Straight line	5-30 years
Library books	\$1	Straight line	10 years

### F. Investment Income

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

### G. Compensated Absences

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

Employees may accumulate up to 176 hours of vacation per year depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees. Therefore, a liability for sick leave benefits is not accrued in the financial statements. However, for employees who are at least 55 years of age or have met the necessary points for full retirement with the Arizona State Retirement System and have been employed by the District for at least 10 years, a portion of their sick leave benefits does vest. Those amounts are accrued as a liability in the financial statements.

### H. Scholarship Allowances

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

Cochise County Community College District  
Notes to Financial Statements  
June 30, 2002

Note 2 - Beginning Balances Restated

As a result of implementing GASB Statement No. 35, a correction of an error for understating capital assets, and a change in the capitalization threshold from \$1,000 to \$5,000, the District's aggregate fund balances reported as of June 30, 2001, have been restated as beginning net assets as follows:

Fund balances as of June 30, 2001, as previously reported	\$31,877,217
Correction of error for capital assets	1,208,932
Accumulated depreciation as of June 30, 2001	(14,446,535)
Change in equipment capitalization threshold	<u>(2,395,219)</u>
Beginning net assets, as restated	<u>\$16,244,395</u>

Note 3 - Deposits and Investments

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

At June 30, 2002, the District's deposits and investments consisted of the following.

	<u>Reported on the Statement of Net Assets as:</u>	
	<u>Cash and Cash Equivalents</u>	<u>Cash and Investments Held by Trustee</u>
Deposits:		
Cash on hand	\$ 17,729	
Cash in bank	421,024	
Investments at fair value:		
Cash and investments held by the County Treasurer	230,128	
Investment in State Treasurer's investment pool	6,391,215	
Money market mutual fund		<u>\$51,364</u>
Total	<u>\$7,060,096</u>	<u>\$51,364</u>

At June 30, 2002, the carrying amount of the District's cash in bank was \$421,024, and the bank balance was \$681,310. Of the bank balance, \$118,552 was covered by federal depository insurance, or by collateral held by the District or its agent in the District's name, and \$562,758 was covered by collateral held by an affiliate of the pledging financial institution in the District's name.

Cochise County Community College District  
Notes to Financial Statements  
June 30, 2002

The District's investment in the State or County Treasurer's investment pools represents a proportionate interest in those pools' portfolios; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk. The same is true for the District's money market mutual fund.

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. No comparable oversight is provided for the County Treasurer's investment pool, and that pool's structure does not provide for shares.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Balance July 1, 2001, as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2002</u>
Capital assets not being depreciated:				
Land	\$ 495,580			\$ 495,580
Total capital assets not being depreciated	<u>495,580</u>			<u>495,580</u>
Capital assets being depreciated:				
Buildings	18,053,279	\$ 72,917		18,126,196
Equipment	4,347,594	710,283	\$40,000	5,017,877
Improvements other than buildings	3,767,250	33,062		3,800,312
Library books	<u>1,117,167</u>	<u>57,797</u>	<u>32,947</u>	<u>1,142,017</u>
Total capital assets being depreciated	<u>27,285,290</u>	<u>874,059</u>	<u>72,947</u>	<u>28,086,402</u>
Less accumulated depreciation for:				
Buildings	8,146,914	460,712		8,607,626
Equipment	3,355,439	349,822	38,000	3,667,261
Improvements other than buildings	2,081,185	202,088		2,283,273
Library books	<u>862,997</u>	<u>50,793</u>	<u>32,947</u>	<u>880,843</u>
Total accumulated depreciation	<u>14,446,535</u>	<u>1,063,415</u>	<u>70,947</u>	<u>15,439,003</u>
Total capital assets being depreciated, net	<u>12,838,755</u>	<u>189,356</u>	<u>2,000</u>	<u>12,647,399</u>
Capital assets, net	<u>\$13,334,335</u>	<u>\$ 189,356</u>	<u>\$ 2,000</u>	<u>\$13,142,979</u>

Cochise County Community College District  
Notes to Financial Statements  
June 30, 2002

Note 5 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2002.

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2002</u>	<u>Due</u> <u>within</u> <u>1 year</u>
Compensated absences payable	\$ 987,768	\$428,576	\$470,344	\$ 946,000	\$450,000
Certificates of participation payable	<u>1,890,000</u>	<u>          </u>	<u>190,000</u>	<u>1,700,000</u>	<u>205,000</u>
Total long-term liabilities	<u>\$2,877,768</u>	<u>\$428,576</u>	<u>\$660,344</u>	<u>\$2,646,000</u>	<u>\$655,000</u>

**Certificates of participation**—The District has issued certificates of participation that are generally noncallable until 2004 when they become callable at a premium, with interest payable semiannually to fund a portion of the \$5,000,000 building expansion project on the Sierra Vista campus.

Certificates outstanding at June 30, 2002, were as follows:

<u>Issue</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Series 1993	\$3,000,000	2003-09	5.70%–6.25%	\$1,700,000

The following schedule details debt service requirements to maturity for the District's certificates of participation payable at June 30, 2002.

	<u>Principal</u>	<u>Interest</u>
Year Ending June 30,		
2003	\$ 205,000	\$102,250
2004	215,000	90,565
2005	225,000	78,095
2006	240,000	64,820
2007	255,000	50,420
2008-09	<u>560,000</u>	<u>52,990</u>
Total	<u>\$1,700,000</u>	<u>\$439,140</u>

Cochise County Community College District  
Notes to Financial Statements  
June 30, 2002

Note 6 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. In addition, the District carries specialized commercial insurance for the risks of loss associated with its aircraft program and nursing and emergency medical technician student program. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 - Retirement Plan

**Plan Description**—The District contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

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

**Funding Policy**—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2002, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2002, 2001, and 2000 were \$307,696, \$330,738, and \$316,649, respectively, which were equal to the required contributions for the year.

Cochise County Community College District  
Notes to Financial Statements  
June 30, 2002

Note 8 - Operating Expenses

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

Personal services	\$18,089,293
Contract services	1,883,281
Supplies and other services	1,564,686
Current fixed charges	545,764
Communications and utilities	887,340
Travel	280,232
Scholarships	2,774,394
Depreciation	1,063,415
Other	<u>230,726</u>
Total	<u>\$27,319,131</u>

Note 9 - Subsequent Event

**Recent Investment Losses in the State Treasurer's Local Government Investment Pool—** Pursuant to statutory authority, a portion of the District's monies are invested in the State Treasurer's Local Government Investment Pool (LGIP), which was established in 1980 for the collective investment of state and local government monies. Monies in the LGIP may be invested in various types of investments prescribed by law, including bonds, debentures, or other evidences of indebtedness that are issued by entities organized and doing business in the United States that have a minimum rating of "Baa" from Moody's Investors Service or "BBB" from Standard & Poors Rating Service. In December 2002, the State Treasurer announced that the LGIP currently holds approximately \$131 million of asset-backed securities issued by an NPF-12 trust that are serviced by National Century Financial Enterprises (NCFE). Recently, NCFE has come under investigation by the Federal Bureau of Investigation, the Securities and Exchange Commission, and various state authorities for possible fraud and violations of federal and state laws. NCFE has since declared bankruptcy and the trustee for the bonds has informed the State Treasurer that the interest payment due December 1, 2002, was not received.

All LGIP participants have been allocated a proportional share of the value of the NPF-12 securities. It is likely that the LGIP will incur a loss on the NPF-12 securities of approximately \$131 million and the District may be allocated approximately \$330,000 of this loss. The State is pursuing legal action to the fullest extent possible to protect the interests of the LGIP participants, which may eventually include the recovery of all or a portion of the investment loss.



Cochise County Community College District  
 Supplementary Information  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2002

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Defense</b>			
Basic Scientific Research	12.431		\$ <u>40,045</u>
<b>U.S. Department of Housing and Urban Development</b>			
Hispanic-Serving Institutions Assisting Communities	14.514		<u>153,921</u>
<b>U.S. Department of Labor</b>			
Passed through Arizona Department of Commerce— Workforce Development			
WIA Adult Program	17.258	AD020049-002	676
Passed through Arizona Department of Commerce—School to Work Division			
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	A9-0023-002, A9-0023-002-Supplement	<u>107,106</u>
Total U.S. Department of Labor			<u>107,782</u>
<b>U.S. National Endowment for the Humanities, National Foundation on the Arts and the Humanities</b>			
Passed through Arizona Humanities Council			
Promotion of the Humanities—Federal/State Partnership	45.129	GG11-3541-2002	<u>3,000</u>
<b>U.S. Small Business Administration</b>			
Passed through Maricopa County Community College District			
Small Business Development Center	59.037	01-7620-0003-9 2-603001-Q-0003-10	<u>64,125</u>
<b>U.S. Department of Education</b>			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		108,278
Federal Family Education Loans	84.032		1,767,479
Federal Work-Study Program	84.033		157,562
Federal Pell Grant Program	84.063		<u>4,051,969</u>
Total Student Financial Assistance Cluster			<u>6,085,288</u>

(Continued)

See accompanying notes to schedule.

Cochise County Community College District  
 Supplementary Information  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2002  
 (Continued)

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Education</b> (continued)			
Higher Education—Institutional Aid	84.031		\$ 147,269
TRIO—Student Support Services	84.042		112,592
Child Care Access Means Parents in School	84.335		10,654
Passed through Arizona Department of Education			
Adult Education—State Grant Program	84.002	02FAEABE-270536-02A	229,555
Vocational Education—Basic Grants to States	84.048	02FVEDBG-270536-07A	18,672
Even Start—State Educational Agencies	84.213	02FAEEVS-270536-01A	110,000
Tech-Prep Education	84.243	02FVEDTP-270536-04A	32,804
Passed through the State Board of Directors for Community Colleges of Arizona			
Vocational Education—Basic Grants to States	84.048	30101, 30201	153,431
Tech-Prep Education	84.243	10101, 10201	136,512
Passed through Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	LEAP	8,141
Passed through University of Arizona—Rural Health Office Fund for the Improvement of Postsecondary Education	84.116	P116B980389-99	59
Total U.S. Department of Education			<u>7,044,977</u>
<b>U.S. Department of Health and Human Services</b>			
Passed through Arizona Department of Economic Security Temporary Assistance for Needy Families	93.558	E5900004-Extension	<u>17,150</u>
Total Expenditures of Federal Awards			<u>\$ 7,431,000</u>

See accompanying notes to schedule.

Cochise County Community College District  
Supplementary Information  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2002

Note 1 - Basis of Presentation

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2002 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

The District did not pass-through any federal awards to subrecipients.



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

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

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of  
Cochise County Community College District

We have audited the basic financial statements of Cochise County Community College District as of and for the year ended June 30, 2002, and have issued our report thereon dated March 7, 2003, which was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 35, and a change in the capitalization threshold as described in our 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.

### **Compliance**

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

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

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Debbie Davenport  
Auditor General

March 7, 2003



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

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

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance in  
Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Governing Board of  
Cochise County Community College District

**Compliance**

We have audited the compliance of Cochise County Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program cluster is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Cochise County Community College District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2002.

## **Internal Control over Compliance**

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

Our consideration of internal control over compliance would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses.

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

Debbie Davenport  
Auditor General

March 7, 2003

Cochise County Community College District  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2002

**Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:		Unqualified	
	<b>Yes</b>	<b>No</b>	
Material weakness identified in internal control over financial reporting?	—	<u>X</u>	
Reportable conditions identified not considered to be material weaknesses?	—	<u>X</u> (None reported)	
Noncompliance material to the financial statements noted?	—	<u>X</u>	

**Federal Awards**

Material weakness identified in internal control over major programs?	—	<u>X</u>	
Reportable conditions identified not considered to be material weaknesses?	—	<u>X</u> (None reported)	

Type of auditors' report issued on compliance for major programs:		Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	—	<u>X</u>	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.032	Federal Family Education Loans
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:		\$ 300,000	
Auditee qualified as low-risk auditee?	<u>X</u>	—	

**Other Matters**

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?	—	<u>X</u>	
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