

Mohave County Community College District

Single Audit Reporting Package

Year Ended June 30, 2005

Mohave County Community College District
Single Audit Reporting Package
Year Ended June 30, 2005

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Independent Auditor's Report

The Auditor General of the State of Arizona

The Governing Board of
Mohave County Community College District

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Mohave County Community College District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts for the discretely presented component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Mohave County Community College District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principle.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



February 9, 2006

Management's Discussion and Analysis

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2005. Please read it in conjunction with the District's financial statements, which immediately follow.

Basic Financial Statements

Beginning with fiscal year 2002, the District has presented annual financial statements in accordance with then-newly effective 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 pronouncements permit public colleges and universities to use the guidance for special-purpose governments engaged only in business-type activities, in that 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. During the year ended June 30, 2004, the District implemented the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which requires reporting as a component unit those organizations that raise and hold economic resources for the direct benefit of the District. Accordingly, the financial statements of the Mohave County Community College Foundation, Inc. are discretely presented. The basic financial statements consist of the following:

The *Statement of Net Assets* reflects the District's financial position at June 30, 2005. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represents institutional equity or ownership in the District's total assets.

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects the results of operations and other changes for the year ended June 30, 2005. 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, 2005. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the *Statement of Net Assets* described above. In addition, this statement reconciles cash flows from operating activities to the operating loss reported on the *Statement of Revenues, Expenses, and Changes in Net Assets* described above.

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Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

Although the primary focus of this document is on the results of activity for fiscal year 2005, comparative data is presented for the previous fiscal year 2004. This Management's Discussion and Analysis (MD&A) uses the prior fiscal year as a reference point in illustrating issues and trends for determining whether the institution's financial health may have improved or deteriorated.

The condensed financial information below highlights the main categories of the *Statement of Net Assets*. Assets and liabilities are distinguished as to their current or noncurrent nature. Current liabilities are typically those obligations intended for liquidation or payment within the next fiscal year, while current assets are those resources that are available to use in meeting the on-going operating needs of the District, including its current liabilities. Net assets are divided into three categories reflecting the broad characteristics of institutional equity in the assets of the organization. In addition to its capital assets, the District holds resources that have been restricted by external parties for specific programs, projects and purposes. Remaining net assets carry no external restrictions, but are dedicated toward carrying out the District's primary mission and necessary support services. Over time, increases or decreases in net assets may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

Statement of Net Assets	As of June 30, 2005	As of June 30, 2004
Current assets	\$ 5,295,858	\$ 4,463,887
Noncurrent assets, other than capital assets	213,515	198,182
Capital assets, net	16,147,449	16,007,108
Total assets	21,656,822	20,669,177
Long-term liabilities	12,115,202	12,404,008
Other liabilities	1,110,145	1,135,274
Total liabilities	13,225,347	13,539,282
Net assets:		
Invested in capital assets, net of related debt	4,478,623	4,101,290
Restricted net assets	967,148	1,383,656
Unrestricted net assets	2,985,704	1,644,949
Total net assets	\$ 8,431,475	\$ 7,129,895

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

The District's fiscal year 2005 financial position improved significantly, 18% stronger than fiscal year end 2004, as a result of increased awards of financial aid to more students, increased full-time student equivalents (FTSE), completed construction in August, 2004 of the BHHS Legacy Foundation Allied Health Building, and continued emphasis on high-demand programs.

The condensed financial information below highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Assets*. Tuition and fees net of scholarship allowances, in the amount of \$2,810,351 are included in operating revenues. In compliance with pronouncements issued by GASB, scholarship allowances are reported as deductions from tuition and fees revenues instead of as scholarship expense. The construction and acquisition of capital assets, although budgeted and recorded as an expense in the accounting system, is not reported as an expense in these statements. Such transactions are instead capitalized and reported as assets – with the systematic allocation of such costs (depreciation) expensed over the useful lives of the assets constructed or acquired. The District shows an operating loss reflecting that two of the largest revenue sources, property taxes and state appropriations, are considered nonoperating revenues. For a description of the differences between operating and nonoperating, please refer to the Summary of Significant Accounting Policies (Note 1), which directly follows the presentation of the financial statements.

Statement of Revenues, Expenses, and Changes in Net Assets	For the Year Ended June 30, 2005	For the Year Ended June 30, 2004
Operating revenues	\$ 8,854,601	\$ 6,564,639
Operating expenses:		
Educational and general	22,745,536	19,728,316
Auxiliary enterprises	190,639	415,948
Depreciation	996,621	944,514
Other	160	160
Total operating expenses	23,932,956	21,088,938
Operating loss	(15,078,355)	(14,524,299)
Nonoperating revenues	15,981,265	14,996,969
Nonoperating expenses	(689,556)	(657,371)
Income (loss) before other revenues, expenses, gains, or losses	213,354	(184,701)
Other revenues, expenses, gains, or losses:		
Contributions	1,088,226	1,392,100
Increase in net assets	1,301,580	1,207,399
Net assets, beginning of year	7,129,895	5,922,496
Net assets, end of year	\$ 8,431,475	\$ 7,129,895

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

Operating revenues, which increased 34.9 percent, were impacted most by a 92.8 percent increase in government grants and contracts, mainly PELL financial aid. A 22 percent increase in full-time student equivalents (FTSE), helped increase tuition and fees, which would have shown an increase of \$1,198,060, or 36 percent if reported at gross rather than net of scholarship allowances. Private grants increased 33.4 percent or \$86,622. Other operating revenues declined as emphasis was placed on instruction. Operating expenses rose 13.5 percent mainly as a result of a 40.7 percent or \$791,200 increase in scholarships and revitalization of campus landscapes and structures that increased operation and maintenance of plant expenses 32.6 percent or \$598,709. Auxiliary enterprises expenses declined 54.2 percent as a result of the completion of the bookstore outsourcing; fiscal year 2004 included \$252,179 in auxiliary enterprises expenses for costs of textbooks and other inventory items sold to the outsourcing agent.

The District's share of property tax revenue increased 8.2%, or \$889,368, as a result of continued growth in Mohave County. State appropriations for operating increased a modest 2.2 percent, but capital appropriations increased 11.7 percent. Nonoperating expenses--interest on debt--increased only 0.2 percent as a result of increased obligations for capital leases.

Capital gifts declined with the completion the BHHS Legacy Foundation Allied Health Building on the Bullhead campus; however, private grants and contracts increased 33.4 percent.

The following schedule presents a summary and comparison of revenues for the fiscal years ended June 30, 2005 and June 30, 2004:

<u>Revenues by Source</u>	Fiscal Year 2005		Fiscal Year 2004		Increase/(Decrease)	
	% of		% of		% of	
	Amount	Total	Amount	Total	Amount	Change
<u>Operating revenues</u>						
Tuition and fees (net of scholarship allowances)	\$ 2,810,351	10.8	\$ 2,778,253	12.1	\$ 32,098	1.2
Government grants and contracts	5,170,921	20.0	2,682,220	11.7	2,488,701	92.8
Private grants and contracts	346,216	1.3	259,594	1.1	86,622	33.4
Bookstore income	140,233	0.5	383,674	1.7	(243,441)	-63.4
Other operating revenues	386,880	1.5	460,898	2.0	(74,018)	-16.1
Total operating revenues	<u>8,854,601</u>	<u>34.1</u>	<u>6,564,639</u>	<u>28.6</u>	<u>2,289,962</u>	<u>34.9</u>
<u>Nonoperating revenues</u>						
Property taxes	11,762,842	45.4	10,873,474	47.4	889,368	8.2
State appropriations	3,710,000	14.3	3,630,300	15.8	79,700	2.2
Other	508,423	2.0	493,195	2.2	15,228	3.1
Total nonoperating revenues	<u>15,981,265</u>	<u>61.7</u>	<u>14,996,969</u>	<u>65.4</u>	<u>984,296</u>	<u>6.6</u>
Capital appropriations	492,000	1.9	440,400	1.9	51,600	11.7
Capital grants and gifts	596,226	2.3	951,700	4.1	(355,474)	-37.4
Total revenues	<u>\$ 25,924,092</u>	<u>100.0</u>	<u>\$ 22,953,708</u>	<u>100.0</u>	<u>\$ 2,970,384</u>	<u>12.9</u>

Please refer to the Financial Highlights and Analysis section for a discussion of major changes in revenue items.

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

The following schedule presents a summary and comparison of expenses for the fiscal years ended June 30, 2005 and June 30, 2004:

<u>Expenses by Function</u>	<u>Fiscal Year 2005</u>		<u>Fiscal Year 2004</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Change</u>
<u>Operating expenses</u>						
Education and general:						
Instruction	\$ 6,492,051	26.4	\$ 5,598,586	25.7	\$ 893,465	16.0
Academic support	2,992,161	12.2	2,685,363	12.4	306,798	11.4
Student services	2,762,592	11.2	2,408,423	11.1	354,169	14.7
Institutional support	5,237,170	21.3	5,150,994	23.7	86,176	1.7
Operation and maintenance of plant	2,435,786	9.9	1,837,077	8.4	598,709	32.6
Scholarships	2,733,955	11.1	1,942,755	8.9	791,200	40.7
Public service	91,821	0.4	105,118	0.5	(13,297)	-12.6
Auxiliary enterprises	190,639	0.8	415,948	1.9	(225,309)	-54.2
Other operating expenses	996,781	4.0	944,674	4.4	52,107	5.5
Total operating expenses	<u>23,932,956</u>	<u>97.3</u>	<u>21,088,938</u>	<u>97.0</u>	<u>2,844,018</u>	<u>13.5</u>
<u>Nonoperating expenses</u>						
Interest expense on debt	658,756	2.6	657,371	3.0	1,385	0.2
Loss on disposal of capital assets	30,800	0.1	-	-	30,800	100.0
Total nonoperating expenses	<u>689,556</u>	<u>2.7</u>	<u>657,371</u>	<u>3.0</u>	<u>32,185</u>	<u>5.0</u>
Total expenses	<u><u>\$ 24,622,512</u></u>	<u><u>100.0</u></u>	<u><u>\$ 21,746,309</u></u>	<u><u>100.0</u></u>	<u><u>\$ 2,876,203</u></u>	<u><u>13.2</u></u>

Please refer to the Financial Highlights and Analysis section for a discussion of major changes within the various functions.

Financial Highlights and Analysis

The District's financial position at June 30, 2005 was stronger than at June 30, 2004, as management's emphasis on students and student services and cost management efforts continued to have a positive impact. Cash and cash equivalents increased \$1,722,220, the result of several factors. Government grants and contracts increased 92.8 percent, property taxes increased 8.2 percent, and state appropriations increased a modest 2.2 percent. Collections of receivables and reduced prepaid expenses also contributed to the improved cash position.

Capital assets, being depreciated, increased \$893,418, and Capital assets not being depreciated (Construction in Progress) decreased \$753,077 as the District completed the BHHS Legacy Foundation Allied Health Building, renovated several buildings, increased security, and updated fire alarm systems. Increases attributable to Improvements other than buildings included outside amenities for the Allied Health Building, a pond project on the Kingman campus, new entrance signs and additional landscaping in Lake Havasu and Bullhead City and a new parking lot at the Colorado City (North Mohave) campus. Equipment additions included

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

\$111,140 in equipment for the new dental hygiene program, \$76,064 for other instructional equipment, \$117,226 for new vehicle acquisitions, \$23,904 for technical upgrades, and \$104,382 for other equipment. The library added \$53,497 in net volumes. Depreciation--reduced by asset dispositions decreased capital assets \$996,621. The net increase in capital assets was \$140,341. Current liabilities increased mainly as a result of accrued payroll for associate faculty teaching in the summer term.

Long-term liabilities of the District decreased by \$288,806 during the fiscal year ended June 30, 2005. The net decrease consisted of the payment of principal on pledged revenue obligations and capital lease agreements of \$320,000 and \$190,284, respectively, the acquisition of \$349,237 of equipment under capital lease agreements, and the net reduction of \$77,806 and \$49,953 in compensated absences payable and deferred contract payments, respectively.

Net assets increased \$1,301,580, reflecting: the increase in capital assets, net of accumulated depreciation, and an increase in unrestricted net assets as a result of increased revenues in excess of increased expenses.

Operating revenues increased because of a 92.8 percent increase in Government grants and contracts revenue mostly as a result of additional awards of federal financial aid to students via PELL grants. Also, private grants and contracts increased 33.4 percent. Bookstore revenue decreased 63.4 percent and expenses declined 68.3 percent. Fiscal year 2004 bookstore revenue and expenses included the revenue and costs for inventory sold in preparation for outsourcing the bookstore operation. Continued population and business growth in Mohave County increased property tax revenue 8.2 percent, or \$889,368. Capital grants and gifts declined 37.4 percent as the BHHS Legacy Foundation Allied Health Building was completed, but support for the District continued as contributions for operating purposes increased.

Total expenses increased 13.2 percent and operating expenses increased 13.5 percent with scholarships and operation and maintenance of plant accounting for the greater portion of the increase. Instruction costs increased \$893,465 or 16 percent. The new dental hygiene program cost \$284,904, including \$94,925 of noncapitalizable furniture and equipment, and the new culinary arts program added \$123,690 to instructional costs. Growth, 88 percent, in the truck driver training program added an additional \$105,414, representing contract costs because this program's operation is outsourced.

An 11.4 percent increase in academic support costs mainly resulted from a 12.2 percent increase in personnel costs with a new Associate Dean position for continuing education and a full year for the Director of the new Dental Hygiene program. The dollar increase in academic support personnel costs, \$286,909, accounted for 93.5 percent of the total increase in academic support costs. Student services' 14.7 percent increase in cost resulted from a 15.4 percent increase in personnel and contracted services costs. These increases were the result of filling previously vacant positions and adding college recruitment and academic counseling personnel on all campuses.

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

Institutional support expense increased only 1.7 percent and included a computer refresh of 300 new computers in the student computer labs on all four campuses at a cost of \$278,660. Operation and maintenance of plant increased 32.6 percent, or \$598,709. An increase of \$386,404 was the result of noncapitalizable refurbishing of all buildings, including outside painting and replacement of carpets in many buildings. Insurance and utilities increased \$89,423. Personnel costs increased 15 percent or \$94,501.

Additional grants and grant increases provided substantially more scholarship monies, 40.7 percent, for students. Auxiliary enterprises expenses decreased as a direct result of outsourcing the bookstore operations (discussed previously). Interest expense on debt increased a modest 0.2 percent, or \$1,385, as a result of additional capital lease obligations for the computer refresh and other support equipment.

Capital Assets

The major addition to capital assets being depreciated was \$1,025,026 construction completed on the BHHS Legacy Foundation Allied Health Building on the Bullhead City campus. A security system was added at Lake Havasu and fire alarm systems were replaced and extended to additional buildings at Bullhead. Land improvements of \$178,966 included outside amenities associated with the Allied Health Building and new entrance signs at the Lake Havasu and Bullhead campuses. New equipment acquired during the fiscal year totaled \$432,716 including: \$111,140 of dental hygiene equipment, \$64,900 of other educational equipment, \$35,066 upgraded technology and \$124,400 for vehicles. The library added \$81,608 of new volumes. Asset dispositions included the old fire alarm systems, a picnic gazebo that burned, old vehicles and equipment no longer technically viable, and old library volumes.

Long-Term Debt

At June 30, 2005, the District had \$11,664,332 of long-term debt outstanding, including revenue bonds of \$3,150,000, pledged revenue obligations of \$8,205,000, and five capital leases of \$309,332, including \$240,901 for 300 new computers, Xerox copiers and a Pitney Bowes postage machine. During fiscal year 2004, principal reductions on pledged revenue obligations and capital leases totaled \$320,000 and \$190,284, respectively. Additional information on the District's long-term debt can be found in Note 4 to the basic financial statements.

Current Economic Conditions

During fiscal year 2005, economic conditions in Mohave County continued to improve as new businesses and industry provided additional revenues and jobs. New businesses are opening and construction of new residences continues in all areas of the county. Major progress is being made in the highway improvement project to divide Highway 93 into a divided four-lane highway and to bypass Hoover Dam. College enrollment for fiscal 2005 improved with a 22 percent increase in FTSE, and fiscal year 2006 sees continuing growth with FTSE up 100 students. The fall semester increase is significant because the District restructured non-transferable credit courses into a Leisure Studies Division with flexible schedules and no credit hours, thereby,

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

relinquishing state-aid payments for FTSE that would have been payable to the District if the previous credit structure had continued.

The District's five-year tuition plan increased fiscal year 2005 tuition to \$42 per credit hour and increased fiscal year 2006 tuition to \$46 per credit hour. Fall semester, 2006 tuition is up 33 percent over fall 2005 even though the Leisure Studies courses are excluded from the 2006 amount. Various student fees continue to be monitored to better match costs to types of classes and labs and distance education enrollment continues to grow. Fees for fall 2006 are up 45 percent over fall 2005 without Leisure Studies courses included in 2006. Financial aid has been provided to as many students as possible, with the result that more students continue to enroll full-time. A new Dental Assistant program began in fiscal year 2006 as the BHHS Legacy Foundation Allied Health Building and dental hygiene equipment can now accommodate both programs.

MCC continues its three-year computer refresher program by furnishing the student computer labs with 300 new computers each fall. The previous year's computers are disbursed to faculty, staff, the library, and other areas of the campuses. The District broke ground in fall 2006 on the Bullhead City Campus to construct a new classroom/laboratory building to be completed by summer 2006.

Requests for Information

This discussion and analysis is designed to provide a general overview of the Mohave County Community College District's financial position 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 Internal Audit Office, Mohave Community College, 1971 Jagerson Ave., Kingman, AZ 86409-1238.

Mohave County Community College District
Statement of Net Assets - Primary Government
June 30, 2005

	Business-Type Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 4,075,774
Receivables:	
Accounts	130,787
Property taxes (net of allowances of \$471,975)	444,502
Government grants and contracts	211,362
Donor - component unit	104,951
Student receivables (net of allowances of \$1,567)	127,757
Student loans, current portion	5,724
Interest	19,402
Other	24,882
Inventories	11,208
Prepaid items	139,509
Total current assets	<u>5,295,858</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	140,481
Cash and investments held by trustee	48,735
Student loans receivable (net of allowances of \$17,920)	24,299
Capital assets, not being depreciated	638,098
Capital assets, being depreciated, net	<u>15,509,351</u>
Total noncurrent assets	<u>16,360,964</u>
Total assets	<u>21,656,822</u>

(Continued)

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Net Assets - Primary Government
June 30, 2005
(Continued)

	Business-Type Activities
Liabilities	
Current liabilities:	
Accounts payable	\$ 259,438
Accrued payroll and employee benefits	485,554
Interest payable	207,843
Deferred revenues	31,426
Deposits held in custody for others	125,884
Current portion of compensated absences payable	24,275
Current portion of deferred contract payments	76,422
Current portion of long-term debt	490,766
Total current liabilities	<u>1,701,608</u>
Noncurrent liabilities:	
Compensated absences payable	159,948
Deferred contract payments	190,225
Long-term debt	11,173,566
Total noncurrent liabilities	<u>11,523,739</u>
Total liabilities	<u>13,225,347</u>
Net Assets	
Invested in capital assets, net of related debt	4,478,623
Restricted:	
Nonexpendable – student loans	46,439
Expendable:	
Grants and contracts	228,007
Debt service	28
Capital projects	692,674
Unrestricted	<u>2,985,704</u>
Total net assets	<u>\$ 8,431,475</u>

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Net Assets – Component Unit
June 30, 2005

Mohave County Community
College Foundation, Inc.

Assets

Cash and cash equivalents	\$ 422,909
Investments	1,714,963
Capital assets, net	23,678
Restricted cash and cash equivalents	<u>76,602</u>
Total assets	<u>2,238,152</u>

Liabilities

Amounts payable to college	104,951
Current portion of charitable annuities payable	20,992
Charitable annuities payable, net of current portion	<u>114,367</u>
Total liabilities	<u>240,310</u>

Net Assets

Unrestricted	870,219
Temporarily restricted	523,203
Permanently restricted	<u>604,420</u>
Total net assets	<u><u>\$ 1,997,842</u></u>

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Revenues, Expenses, and Changes in Net Assets – Primary Government
Year Ended June 30, 2005

	Business-Type Activities
Operating revenues:	
Tuition and fees (pledged as security for long-term debt and net of scholarship allowances of \$2,470,918)	\$ 2,810,351
Government grants and contracts	5,170,921
Private grants and contracts	346,216
Bookstore income (pledged as security for long-term debt)	140,233
Food service income (pledged as security for long-term debt)	27,792
Other sales and services (pledged as security for long-term debt)	278,613
Other	80,475
Total operating revenues	<u>8,854,601</u>
Operating expenses:	
Educational and general:	
Instruction	6,492,051
Public service	91,821
Academic support	2,992,161
Student services	2,762,592
Institutional support	5,237,170
Operation and maintenance of plant	2,435,786
Scholarships	2,733,955
Auxiliary enterprises	190,639
Depreciation	996,621
Other	160
Total operating expenses	<u>23,932,956</u>
Operating loss	<u>(15,078,355)</u>
Nonoperating revenues (expenses):	
Property taxes	11,762,842
State appropriations	3,710,000
Share of state sales taxes	418,297
Investment earnings, net of investment expense	90,126
Interest expense on debt	(658,756)
Loss on disposal of capital assets	(30,800)
Total nonoperating revenues (expenses)	<u>15,291,709</u>
Income before other revenues, expenses, gains, or losses	213,354
Capital appropriations	492,000
Capital grants and gifts	<u>596,226</u>
Increase in net assets	1,301,580
Total net assets, July 1, 2004	<u>7,129,895</u>
Total net assets, June 30, 2005	<u><u>\$ 8,431,475</u></u>

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Activities – Component Unit
Year Ended June 30, 2005

	Mohave County Community College Foundation, Inc.			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Contributions and dues	\$ 3,259	\$ 35,382	\$ 11,000	\$ 49,641
Interest/dividend income	37,810	33,420	-	71,230
Net realized/unrealized gains on investments	412	88,447	-	88,859
Special events	-	50,171	-	50,171
Rental income	4,492	-	-	4,492
Gain on sale of fixed assets	18,437	-	-	18,437
Net assets released from restrictions:				
Satisfaction of program restrictions	119,356	(119,356)	-	-
Total revenues, gains, and other support	183,766	88,064	11,000	282,830
Expenses and losses:				
Accounting	26,065	-	-	26,065
Advertising	3,330	-	-	3,330
Auto/travel	689	-	-	689
Miscellaneous	6,038	-	-	6,038
Fund-raising	34,953	-	-	34,953
Property taxes	999	-	-	999
Payments to/for college	548,927	-	-	548,927
Distributions to beneficiaries of life income and life estates	22,026	-	-	22,026
Depreciation	7,821	-	-	7,821
Total expenses and losses	650,848	-	-	650,848
Other expenses and losses:				
Rental expenses	782	-	-	782
Total expenses, other expenses, and losses	651,630	-	-	651,630
Change in net assets	(467,864)	88,064	11,000	(368,800)
Net assets at beginning of year	1,510,371	393,517	438,097	2,341,985
Prior period adjustment	(172,288)	41,622	155,323	24,657
Net assets at end of year	\$ 870,219	\$ 523,203	\$ 604,420	\$ 1,997,842

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Cash Flows—Primary Government
Year Ended June 30, 2005

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	\$ 2,672,044
Grants and contracts	5,753,445
Bookstore receipts	128,695
Food service receipts	25,765
Sales and services	278,613
Collection of loans to students	3,273
Other receipts	80,476
Payments to suppliers and providers of goods and services	(6,874,033)
Payments to employees	(12,999,155)
Payments for scholarships	(2,747,561)
Net cash used for operating activities	<u>(13,678,438)</u>
Cash flows from noncapital financing activities:	
Property taxes	11,880,819
State appropriations	3,710,000
Share of state sales taxes	418,297
Deposits held in custody for others received	355,416
Deposits held in custody for others disbursed	(328,818)
Net cash provided by noncapital financing activities	<u>16,035,714</u>
Cash flows from capital and related financing activities:	
Capital appropriations	492,000
Capital grants and gifts	1,014,028
Proceeds from sale of capital assets	8,803
Principal paid on capital debt	(510,284)
Interest paid on capital debt	(663,605)
Payments made to contractors	(557,970)
Purchases of capital assets	(496,942)
Net cash used for capital and related financing activities	<u>(713,970)</u>
Cash flows from investing activities:	
Interest received on investments, net	<u>78,914</u>
Net cash provided by investing activities	<u>78,914</u>
Net increase in cash and cash equivalents	1,722,220
Cash and cash equivalents, July 1, 2004	<u>2,542,770</u>
Cash and cash equivalents, June 30, 2005	<u><u>\$ 4,264,990</u></u>

(Continued)

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Cash Flows—Primary Government
Year Ended June 30, 2005
(Continued)

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (15,078,355)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	996,621
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(105,369)
Student receivables, net	(74,583)
Accounts payable	69,610
Accrued payroll and employee benefits	174,943
Decrease in:	
Government grants and contracts receivable	236,308
Donor receivables	16,560
Student loans receivable, net	3,433
Other receivables	9,159
Inventories	1,083
Prepaid items	205,319
Deferred revenues	(5,407)
Compensated absences payable	(77,806)
Deferred contract payments	(49,954)
Net cash used for operating activities	<u>\$ (13,678,438)</u>
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and cash equivalents	\$ 4,075,774
Restricted assets:	
Cash and cash equivalents	140,481
Cash and investments held by trustee	48,735
Total cash and cash equivalents, June 30, 2005	<u>\$ 4,264,990</u>
Noncash investing, capital, and noncapital financing activities:	
Capital assets acquired by donor's direct payments to vendor	\$ 32,517
Capital assets acquired by capital lease	349,237

See accompanying notes to financial statements.

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Mohave County 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).

During the year ended June 30, 2005, the District implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modified the risk disclosures about the District's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

A. Reporting Entity

The District is a special-purpose government that is governed by a separately elected governing body (the Board). 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 Mohave County Community College Foundation, Inc. (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 programs. Although the District does not control the timing or amount of receipts from the Foundation, the Foundation's restricted resources can only be used by, or for the benefit of, the District or its constituents. Consequently, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements. For financial reporting purposes, only the Foundation's statements of net assets and activities are included in the District's financial statements as required by generally accepted accounting principles for public colleges and universities.

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board (FASB) statements for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the District. The Foundation has a June 30 year end.

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

During the year ended June 30, 2005, the Foundation distributed \$548,927 to the District for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Mohave Community College Foundation, Inc., 1971 Jagerson Avenue, Kingman, Arizona 86401.

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.

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

The 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. Operating revenues and expenses generally result from providing instructional, public, and auxiliary services, which is consistent with the District's mission. Accordingly, revenues such as tuition, educational grants, and bookstore and food service charges are considered to be operating revenues. Other revenues, such as property taxes and state appropriations, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

The 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

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

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. 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 eliminates all internal activity.

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

C. Cash and Investments

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

D. Inventories

Inventory is stated at cost using the weighted-average method.

E. Capital Assets

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

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

Asset Category	Capitalization Threshold	Depreciation Method	Estimated Useful life
Land	\$1	Not applicable	Not applicable
Buildings and improvements	\$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

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

F. Investment Earnings

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

G. Compensated Absences

Compensated absences consist of vacation leave carried forward into a new Paid Time Off (PTO) plan implemented July 1, 2005, and a calculated amount of sick leave earned by employees based on services already rendered and payable upon leaving employment with the District.

Sick leave benefits provide for ordinary sick pay and were cumulative through June 30, 2005. These benefits carried forward into fiscal year 2006 in a Sick Leave Reserve (SLR) account to be used only for sick leave prior to using the new PTO for sick leave. Sick leave does not vest with an employee until the employee has been employed by the District for 15 years. The maximum number of sick leave hours an employee could accrue was 600 hours, for a maximum payout of \$3,000. Only vested sick leave amounts are accrued as a liability in the financial statements.

The new PTO plan supersedes the previous vacation, sick leave and personal/emergency leave policies of the District. All regular full-time, benefits-eligible, non-temporary employees, including resident faculty scheduled to work less than twelve months annually, are eligible to accrue PTO leave credit. Maximum hours accruable are 288 hours for administrators and 160 hours for resident faculty. Professional and support staff earn hours based on years of completed service as follows: 0 – 4 years accrue 192 hours, 5 – 9 years accrue 232 hours, 10 – 14 years accrue 272 hours and 15+ years accrue 312 hours. At any point in time, the balance is limited to one and one-half times the annual accrual hours.

Upon termination the accrued PTO is payable based on consecutive years of service as follows: employees with 90 days – 2 years of service are compensated at 25 percent of the accrued amount, employees with 3 – 5 years receive 50 percent of the accrued amount, employees with 6 – 8 years completed service are paid 75 percent of the accrued amount, and employees with 9+ years of completed service receive 100 percent of the accrued amount.

At July 1, 2005 an employee could carry forward a maximum of one year's vacation accrual into his/her individual PTO account; however, the carryforward is subject to the same percentage reduction explained above if the employee terminates before all PTO is used. The compensated absences liability has been reduced \$77,547 to reflect the effect of the potential reduction on previous vacation leave carried forward into the new PTO plan.

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

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.

Note 2 - Deposits and Investments

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

The District does not have a formal investment policy with respect to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for investments.

Deposits — At June 30, 2005, the carrying amount of the District's deposits was \$392,314, and the bank balance was \$678,982.

Investments — The District's investments at June 30, 2005, were as follows:

<u>Investment Type</u>	<u>Amount</u>
County Treasurer's investment pool	\$ 3,817,588
Money Market Mutual Fund	48,735
	<u>\$ 3,866,323</u>

No oversight is provided for the County Treasurer's investment pool, and that pool's structure does not provide for shares.

Credit risk — At June 30, 2005, credit risk for the District's investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
County Treasurer's investment pool	Unrated	Not applicable	\$ 3,817,588
Money Market Mutual Fund	Unrated	Not applicable	48,735
			<u>\$ 3,866,323</u>

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

Custodial credit risk — For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2005, the District had \$48,735 of investments in a money market mutual fund that was uninsured and held by the counterparty not in the District's name.

Interest rate risk— At June 30, 2005, the District had the following investments in debt securities:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity in Years</u>
County Treasurer's investment pool	\$ 3,817,588	2.33
Money Market Mutual Fund	48,735	.1
	<u>\$ 3,866,323</u>	

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

Cash, deposits, and investments:		Statement of Net Assets:	
Cash on hand	\$ 6,353	Cash and cash equivalents	\$ 4,075,774
Amount of deposits	392,314	Restricted assets:	
Amount of investments	3,866,323	Cash and cash equivalents	140,481
		Cash and investments held by trustee	48,735
Total	<u>\$ 4,264,990</u>	Total	<u>\$ 4,264,990</u>

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Capital assets not being depreciated:				
Land	\$ 638,098			\$ 638,098
Construction in progress	753,077	\$ 271,949	\$ 1,025,026	-
Total capital assets not being depreciated	<u>1,391,175</u>	<u>271,949</u>	<u>1,025,026</u>	<u>638,098</u>
Capital assets being depreciated:				
Buildings and improvements	19,943,316	1,253,523	40,025	21,156,814
Improvements other than buildings	1,939,999	178,966	16,175	2,102,790
Equipment	1,987,452	432,716	87,814	2,332,354
Library books	1,805,691	81,608	28,111	1,859,188
Total capital assets being depreciated	<u>25,676,458</u>	<u>1,946,813</u>	<u>172,125</u>	<u>27,451,146</u>

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Less accumulated depreciation for:				
Buildings and improvements	6,835,043	617,127		7,452,170
Improvements other than buildings	1,259,135	93,887	9,705	1,343,317
Equipment	1,495,999	223,989	77,534	1,642,454
Library books	1,470,348	61,618	28,112	1,503,854
Total accumulated depreciation	<u>11,060,525</u>	<u>996,621</u>	<u>115,351</u>	<u>11,941,795</u>
Total capital assets being depreciated, net	<u>14,615,933</u>	<u>950,192</u>	<u>56,774</u>	<u>15,509,351</u>
Capital assets, net	<u>\$ 16,007,108</u>	<u>\$ 1,222,141</u>	<u>\$ 1,081,800</u>	<u>\$ 16,147,449</u>

Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2005.

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due within one year
Compensated absences payable	\$ 262,029	\$ 26,072	\$ 103,878	\$ 184,223	\$ 24,275
Deferred contract payments	\$ 316,600	\$ 34,604	\$ 84,557	\$ 266,647	\$ 76,422
Revenue bonds payable	\$ 3,150,000			\$ 3,150,000	
Pledged revenue obligations	8,525,000		\$ 320,000	8,205,000	\$ 335,000
Capital leases payable	150,379	\$ 349,237	190,284	309,332	155,766
Total long-term debt	<u>\$ 11,825,379</u>	<u>\$ 349,237</u>	<u>\$ 510,284</u>	<u>\$ 11,664,332</u>	<u>\$ 490,766</u>

See Note 8 for explanation of deferred contract payments at June 30, 2005.

Revenue bonds - The District's bonded debt consists of Series 2000 revenue bonds that are generally callable with interest payable semiannually. Bond proceeds were used for construction of new classrooms and revenue-producing facilities, and for repairs, improvements, and renovations to existing buildings. The revenue bonds are repaid from tuition, fees, rentals and other charges paid by students, faculty, and others.

Revenue bonds outstanding at June 30, 2005, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Series 2000	\$ 3,150,000	2016-2020	6.0%	\$3,150,000

The following schedule details debt service requirements to maturity for the District's revenue bonds payable at June 30, 2005.

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

	<u>Principal</u>	<u>Interest</u>
Year ending June 30,		
2006		\$ 189,000
2007		189,000
2008		189,000
2009		189,000
2010		189,000
2011-15		945,000
2016-20	\$ 3,150,000	588,900
Total	<u>\$ 3,150,000</u>	<u>\$ 2,478,900</u>

Pledged revenue obligations - The District's pledged revenue obligations debt consists of obligations issued under the terms of agreements with the trustee. The obligations are payable solely from lease payments pursuant to lease purchase agreements and mature in 1 to 10 years. The lease payments are equal to the principal and interest requirements with respect to the obligations and are payable from and secured by the District's tuition, fees, rentals, and other charges paid by students, faculty, and others. The proceeds from the Series 2000 Pledged Revenue Obligations, issued in the amount of \$4,350,000, were used to construct new classrooms and revenue-producing facilities and for repairs, improvements, and renovations to existing buildings. The proceeds from the Series 2001 Refunding Pledged Revenue Obligations, issued in the amount of \$4,630,000, were used to advance refund older, higher rate certificates of participation.

Pledged revenue obligations outstanding at June 30, 2005, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Series 2000	\$4,350,000	2010-2015	5.5%	\$4,350,000
Series 2001 Refunding	4,630,000	2005-2015	3.75-5.25	3,855,000

The following schedule details debt service requirements to maturity for the District's pledged revenue obligations at June 30, 2005.

	<u>Series 2000</u>		<u>Series 2001</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30,				
2006		\$ 239,250	\$ 335,000	\$ 192,260
2007		239,250	350,000	175,510
2008		239,250	340,000	157,135
2009		239,250	350,000	143,195
2010	\$ 630,000	239,250	365,000	128,320
2011-15	3,720,000	636,075	2,115,000	351,685
Total	<u>\$ 4,350,000</u>	<u>\$ 1,832,325</u>	<u>\$ 3,855,000</u>	<u>\$ 1,148,105</u>

Capital leases - The District has acquired equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because the agreements provide for a bargain purchase option, a transfer of ownership by the end of the lease term, or the lease terms equal or exceed the

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

useful life of the assets. However, only \$144,503 of such assets are capitalized at June 30, 2005.

Equipment	\$ 144,503
Less: accumulated depreciation	29,236
Carrying value	<u>\$ 115,267</u>

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2005.

Year ending June 30,	
2006	\$ 175,912
2007	120,528
2008	17,365
2009	17,365
2010	<u>11,986</u>
Total minimum lease payments	343,156
Less amount representing interest	33,824
Present value of net minimum lease payments	<u>\$ 309,332</u>

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 eight other community college districts and more than 200 Arizona school districts in the Arizona School Risk Retention Trust, Inc., a public entity risk pool. The Trust insures the District against liabilities arising from general liability, professional liability, property, and commercial crime risks. The Trust's operating agreement includes a provision for member assessment in the event that total claims paid by the Trust exceed the contributions and reserves in any one year. The assessment is limited to the contribution amount paid by the District during the year in which the assessment is applied. The Trust has never had such an assessment. The District also carries commercial insurance for other risks of loss, including workers' compensation, 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.

The District is one of five members of the Mohave Schools Insurance Consortium, which provides life insurance and medical, dental and vision benefits to eligible employees of Consortium members. An independent administrator provides the Consortium with claims and recordkeeping services. The District is responsible for paying the premiums for eligible employees, but requires employees to pay premiums for spousal and dependent coverage. The District would be assessed an additional contribution should the Consortium become insolvent. This additional contribution shall not exceed the amount of the District's annual premium. Should the

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

District withdraw from the Consortium, the District would then be responsible for its proportional share of claims and would forfeit all rights to the return of any surplus, unearned contributions, or other legally permitted distributions from the Consortium. Whether the District withdraws or the Consortium becomes insolvent, the District remains liable for assessments for liabilities of the Consortium incurred during the District's period of membership in the Consortium.

Note 6 - Operating Leases

The District leases equipment under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$141,657 for the year ended June 30, 2005. The operating leases have remaining noncancelable terms of from one to five and one-half years. The future minimum payments required under the operating leases at June 30, 2005, were as follows:

Year ending June 30,	
2006	\$ 53,063
2007	31,963
2008	23,505
2009	14,796
2010	3,292
2011	498
Total minimum lease payments	<u>\$ 127,117</u>

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 to 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, 2005, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2005, 2004, and

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

2003, were \$461,265, \$449,670, and \$228,787, respectively, which were equal to the required contributions for the year.

Note 8 - Significant Commitments

In January, 2003 the District entered into a 7-year commitment with a comprehensive consulting services company specializing in higher education for the operation and management of information technology at the District. The contract terms consist of an initial 3-year term plus a 4-year extension. The District can cancel the contract at any time, but upon cancellation, the District will be required to pay termination fees of \$100,000, the balance of deferred contract payments, and agreed-upon transition costs. Total contract payments at the contract's inception were \$9,869,242 adjusted annually based on changes in the Consumer Price Index-All Urban Consumers (CPI-U) index.

The following schedule details annual payments under this agreement based on the CPI-U at June 30, 2005:

Year ending June 30,	
2006	\$ 1,623,056
2007	1,623,057
2008	1,623,057
2009	1,559,357
2010	772,229
Total	<u>\$ 7,200,756</u>

The amounts listed above will be expensed in future years when the services are performed. Of the amount of \$1,623,135 paid during the fiscal year, \$1,540,435 was recorded as an expense in the current year for services performed during the year ended June 30, 2005 and \$82,700 was applied to reduce the liability for deferred contract payments at June 30, 2005.

Note 9 - Operating Expenses

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

Personal services	\$ 13,102,317
Contract services	2,975,047
Supplies and other services	2,728,839
Communications and utilities	935,052
Scholarships	2,733,955
Depreciation	996,621
Other	461,125
Total	<u>\$ 23,932,956</u>

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

Note 10 – Subsequent Events

The District is constructing a new classroom building on the Bullhead City Campus to be completed in fiscal year 2006. Estimated cost of construction is \$1,376,192. The building is being financed with Pledged Revenue Obligations Series 2005 issued on October 1, 2005 in the amount of \$1,325,000 payable beginning September 1, 2006 and continuing through September 1, 2020. Interest rates range from 3.50 to 4.125 percent.

Note 11 – Discretely Presented Component Unit Disclosure

A. Nature of Activities and Summary of Significant Accounting Policies

General - Mohave County Community College Foundation, Inc. (Foundation) was organized in 1977 as a nonprofit educational organization whose primary purpose is to support education through the Mohave County Community College District. The Foundation is an exempt organization for federal income tax purposes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation supports education by using the contributions it receives to provide scholarships, capital improvements, and other services for the benefit of Mohave County Community College's students, faculty, staff, administration, and community.

Method of Accounting - The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Capital Assets - Donated capital assets are recorded at their estimated fair market values at the date of donation. Maintenance, repairs and renewals, which neither materially add to the value of the property nor appreciably prolong life, are charged to expense as incurred. Major renewals and betterments are capitalized. Gains and losses on dispositions of property and equipment are included in revenue in the year of disposition.

Depreciation of physical properties is calculated on the straight-line method over the following estimated useful lives:

Buildings	15-40 years
Autos and trucks	5 years

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. As restrictions are met, these revenues become unrestricted and are then allowed to be expended.

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

Contributed Services - The Foundation does not normally recognize in the financial statements any support, revenue or expense, from services contributed by volunteers.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

B. Cash and Cash Equivalents

The Foundation's cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

At June 30, 2005, the carrying amount of the Foundation's deposits was \$499,511 and the bank balance was \$499,961. Of the bank balance, \$123,153 was covered by federal depository insurance.

At June 30, 2005, \$76,602 of cash and cash equivalents were temporarily restricted.

C. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values as of June 30, 2005. Investments in unimproved real estate are valued at fair market value at the time of donation.

Investments consist of various securities, including stocks, bonds, and mutual funds, and unimproved real estate, and notes receivable, as follows:

Securities	\$ 1,600,353
Notes receivable	22,811
Unimproved real estate	<u>91,799</u>
Total	<u>\$ 1,714,963</u>

D. Split Interest Agreements - Charitable Trusts

The Foundation has entered into charitable gift annuity agreements wherein donors (the Annuitants) conveyed to the Foundation, assets in exchange for annual payments to the annuitants during their lifetimes, or for a term of years. The liability is calculated at the date of donation by calculating the present value of the annual payments over the expected remaining life of the annuitants or term of years, whichever is greater. Contributions revenue, which is the fair market value of the contribution less its corresponding liability, is included in the statement of activities in

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

the year of contribution. Assets under split-interest agreements included in the Statement of Net Assets total \$409,122.

Year Ending June 30,	Total
2006	\$ 21,046
2007	21,046
2008	21,046
2009	21,046
2010	21,046
2011	21,046
2012	9,083
Total annuities payable	<u>\$ 135,359</u>

E. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the unspent portion of various restricted donations and the amounts held in investments under charitable annuity trust arrangements net of charitable annuities payable, as shown below.

Charitable remainder trusts	\$ 273,764
Scholarships	<u>249,439</u>
Total temporarily restricted net assets	<u>\$ 523,203</u>

F. Fund-raising

The Foundation conducts various fund-raising events throughout the year. Total fund-raising revenues received and expenses incurred for the year ended June 30, 2005 were \$50,171 and \$34,953, respectively.

G. Prior Period Adjustments

During the year, management found that various pieces of artwork purchased in prior years had not been capitalized. A prior period adjustment was made to capitalize the artwork and increase beginning net assets by \$4,632.

Two vehicles contributed to the District in prior years had not been capitalized by the District in those years. During fiscal year 2005, the District capitalized the vehicles and reduced the amount receivable from the Foundation. At the original dates of the donations, the Foundation had expensed the vehicles as payments to the District, which reduced net assets. A prior period adjustment of \$20,025 has been made to increase net assets of the Foundation and reduce the amount payable to the District.

The Foundation found that the amounts being reported as permanently and temporarily restricted net assets in prior years had been understated by \$155,323

Mohave County Community College District
Notes to Financial Statements
June 30, 2005

and \$41,622 respectively. Records were found indicating that additional scholarship endowments had been established with permanent restrictions. A prior period adjustment was made to reclassify unrestricted net assets as permanently restricted for the original restricted portion of the contributions. Another prior period adjustment was made to reclassify unrestricted net assets as temporarily restricted for the net accumulated earnings on the restricted investments.

Supplementary Information

Mohave County Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of the Interior			
Fish and Wildlife Management Assistance	15.608		\$ 530
Bureau of Land Management	15.unknown		3,158
Total U.S. Department of the Interior			<u>3,688</u>
U.S. Department of Commerce, National Oceanic & Atmospheric Administration			
National Severe Storms Laboratory	11.unknown		<u>2,346</u>
U.S. Small Business Administration			
Passed through the Maricopa County Community College District			
Small Business Development Center	59.037	4-603001-Z-0003-12 5-603001-Z-0003-13	<u>54,425</u>
U.S. Department of Education			
Passed through the Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	011864	<u>13,424</u>
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		64,232
Federal Work-Study Program	84.033		58,582
Federal Perkins Loan Program--Federal Capital Contributions	84.038		23,954
Federal Pell Grant Program	84.063		<u>4,269,791</u>
Total Student Financial Assistance Cluster			<u>4,416,559</u>
Passed through the Arizona Department of Education			
Adult Education--State Grant Program	84.002	05FAEABE-570556-01A	159,250
Tech-Prep Education	84.243	04FCTDTP-470556-02A 05FTCDTP-570556-03A 04FCTDTP-470556-05A	145,657
Vocational Education--Basic Grants to States	84.048	04FCTDBG-470556-04A 05FCTDBG-570556-04A	<u>167,160</u>
Total U.S. Department of Education			<u>4,902,050</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,962,509</u></u>

See accompanying notes to schedule.

Mohave County Community College District
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Mohave 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 2005 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Loans Outstanding

The expenditures reported on the Schedule of Expenditures of Federal Awards for the Federal Perkins Loan Program—Federal Capital Contributions (CFDA number 84.038) consisted of \$23,954 in loan balances outstanding at June 30, 2005.

Note 4 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2005.

MARK L. LANDY, C.P.A.
STEPHEN T. HARRIS, C.P.A.
THOMAS L. FRIEND, C.P.A.

ROBERT L. MILLER, C.P.A.
(1931 - 1992)

**Independent Auditor's 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***

The Auditor General of the State of Arizona

The Governing Board of
Mohave County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Mohave County Community College District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 9, 2006. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40 and was modified due to our reliance on the report of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *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 opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the basic 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of

laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, 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.

A handwritten signature in black ink that reads "Miller, Allen & Co., P.C." in a cursive script.

February 9, 2006

MARK L. LANDY, C.P.A.
STEPHEN T. HARRIS, C.P.A.
THOMAS L. FRIEND, C.P.A.

ROBERT L. MILLER, C.P.A.
(1931 - 1992)

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

The Auditor General of the State of Arizona

The Governing Board of
Mohave County Community College District

Compliance

We have audited the compliance of Mohave 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 each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Mohave County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with 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 matters in internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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 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 Auditor General of the State of Arizona, 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.



February 9, 2006

**Mohave County Community College District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005**

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Yes No

Material weakness identified in internal control over financial reporting?

_____ X

Reportable condition identified not considered to be a material weakness?

_____ X
(None reported)

Noncompliance material to the financial statements noted?

_____ X

Federal Awards

Material weakness identified in internal control over major programs?

_____ X

Reportable condition identified not considered to be a material weakness?

_____ X
(None reported)

Type of auditor's 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])?

_____ X

Identification of major programs:

CFDA

Number

Name of Federal Program or Cluster

Student Financial Aid Cluster:

84.007 Federal Supplemental Educational Opportunity Grants

84.033 Federal Work-Study Program

84.038 Federal Perkins Loan Program – Federal Capital Contributions

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?

X _____

Other Matters

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

_____ X