



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Mohave County Community College District

Year Ended June 30, 2003



Debra K. Davenport
Auditor General

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Mohave County Community College District
Single Audit Reporting Package
Year Ended June 30, 2003

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Mohave County Community College District

We have audited the accompanying basic financial statements of Mohave County Community College District as of and for the year ended June 30, 2003, 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 Mohave County Community College District as of June 30, 2003, 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.

The Management's Discussion and Analysis on pages i through viii 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 an opinion on the District's basic financial statements taken as a whole. 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 August 13, 2004, 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

August 13, 2004

Mohave County Community College District Management's Discussion and Analysis For the Year Ended June 30, 2003

The Mohave County Community College District prepared the following discussion and analysis of the District's financial performance that provides an overview of the District's financial activities for the year ended June 30, 2003. 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. The basic financial statements consist of the following:

The Statement of Net Assets reflects the District's financial position at June 30, 2003. 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, 2003. 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, 2003. 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, 2003

Although the primary focus of this document is on the results of activity for fiscal year 2003, comparative data is presented for the previous fiscal year 2002. 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 ongoing 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, 2003	As of June 30, 2002 (As Adjusted)
Current assets	\$ 3,442,639	\$ 3,973,570
Noncurrent assets, other than capital assets	205,441	345,377
Capital assets, net	<u>15,726,224</u>	<u>16,168,535</u>
Total assets	<u>19,374,304</u>	<u>20,487,482</u>
Current liabilities	1,356,440	1,077,085
Noncurrent liabilities	<u>12,095,368</u>	<u>12,516,312</u>
Total liabilities	<u>13,451,808</u>	<u>13,593,397</u>
Net assets:		
Invested in capital assets, net of related debt	3,553,967	4,062,389
Restricted net assets	757,973	965,912
Unrestricted net assets	<u>1,610,556</u>	<u>1,865,784</u>
Total net assets	<u>\$ 5,922,496</u>	<u>\$ 6,894,085</u>

The amounts reported for June 30, 2002 capital assets, net and net assets invested in capital assets, net of related debt have been adjusted for \$1,096,869 accumulated depreciation on improvements other than buildings that was not recorded at June 30, 2002. See Note 2 to the basic financial statements for further explanation.

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

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 \$2,122,844 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 the two 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.

<i>Statement of Revenues, Expenses, and Changes in Net Assets</i>	<i>For the Year Ended June 30, 2003</i>	<i>For the Year Ended June 30, 2002 (As Adjusted)</i>
Operating revenues	\$ 5,900,501	\$ 5,562,861
Operating expenses		
Educational and general	17,787,479	17,897,242
Auxiliary enterprises	1,595,387	1,540,994
Depreciation	996,721	938,116
Other	<u>10,497</u>	<u>2,927</u>
Total operating expenses	<u>20,390,084</u>	<u>20,379,279</u>
Operating loss	(14,489,583)	(14,816,418)
Nonoperating revenues	13,752,013	13,808,692
Nonoperating expenses	<u>(903,437)</u>	<u>(1,040,130)</u>
Loss before other revenues, expenses, gains or losses	(1,641,007)	(2,047,856)
Other revenues, expenses, gains or losses	<u>669,418</u>	<u>518,430</u>
Decrease in net assets	(971,589)	(1,529,426)
Net assets, Beginning of year (as restated)	<u>6,894,085</u>	<u>8,423,511</u>
Net assets, End of year	<u>\$ 5,922,496</u>	<u>\$ 6,894,085</u>

The fiscal year 2002 depreciation expense has been adjusted for \$76,880 depreciation on improvements other than buildings and net assets, beginning of year has been restated for this depreciation and for the accumulated depreciation on these improvements as of July 1, 2002. See Note 2 to the basic financial statements.

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

The following schedule presents a summary and comparison of revenues for the fiscal years ended June 30, 2003 and June 30, 2002:

<u>Revenues by Source</u>	<u>Fiscal Year 2003</u>		<u>Fiscal Year 2002</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 revenues</u>						
Tuition and fees (net of scholarship allowances)	\$ 2,122,844	10.5	\$ 1,921,312	9.7	\$ 201,532	10.5
Government grants and contracts	2,182,375	10.7	1,881,464	9.5	300,911	16.0
Bookstore income	1,249,195	6.1	1,207,751	6.0	41,444	3.4
Other operating revenues	<u>346,087</u>	<u>1.7</u>	<u>552,334</u>	<u>2.8</u>	<u>(206,247)</u>	<u>(37.3)</u>
Total operating revenues	<u>5,900,501</u>	<u>29.0</u>	<u>5,562,861</u>	<u>28.0</u>	<u>337,640</u>	<u>6.1</u>
<u>Nonoperating revenues</u>						
Property taxes	9,515,110	46.8	9,289,567	46.7	225,543	2.4
State appropriations	3,630,300	17.9	3,944,700	19.8	(314,400)	(8.0)
Other	<u>606,603</u>	<u>3.0</u>	<u>574,425</u>	<u>2.9</u>	<u>32,178</u>	<u>5.6</u>
Total nonoperating revenues	<u>13,752,013</u>	<u>67.7</u>	<u>13,808,692</u>	<u>69.4</u>	<u>(56,679)</u>	<u>(0.4)</u>
Capital appropriations	440,400	2.2	470,900	2.4	(30,500)	(6.5)
Capital grants and gifts	<u>229,018</u>	<u>1.1</u>	<u>47,530</u>	<u>0.2</u>	<u>181,488</u>	<u>381.8</u>
Total revenues	<u>\$20,321,932</u>	<u>100.0</u>	<u>\$19,889,983</u>	<u>100.0</u>	<u>\$ 431,949</u>	<u>2.2</u>

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

The following schedule presents a summary and comparison of expenses for the fiscal years ended June 30, 2003 and June 30, 2002:

<u>Expenses by Function</u>	<u>Fiscal Year 2003</u>		<u>Fiscal Year 2002</u> (As Adjusted)		<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>						
Educational and general:						
Instruction	\$ 5,668,524	26.6	\$ 5,783,924	27.0	\$(115,400)	(2.0)
Academic support	3,827,995	18.0	4,195,865	19.6	(367,870)	(8.8)
Institutional support	3,715,656	17.4	3,183,542	14.8	532,114	16.7
Operation and maintenance of plant	1,513,825	7.1	1,599,692	7.5	(85,867)	(5.4)
Scholarships	1,680,538	7.9	1,706,035	8.0	(25,497)	(1.5)
Other	1,380,941	6.5	1,428,184	6.7	(47,243)	(3.3)
Auxiliary enterprises	1,595,387	7.5	1,540,994	7.2	54,393	3.5
Other operating expenses	<u>1,007,218</u>	<u>4.7</u>	<u>941,043</u>	<u>4.3</u>	<u>66,175</u>	7.0
Total operating expenses	<u>20,390,084</u>	<u>95.7</u>	<u>20,379,279</u>	<u>95.1</u>	<u>10,805</u>	0.0
<u>Nonoperating expenses</u>						
Interest expense on debt	903,437	4.3	634,197	3.0	269,240	42.5
Other			<u>405,933</u>	<u>1.9</u>	<u>(405,933)</u>	(100.0)
Total nonoperating expenses	<u>903,437</u>	<u>4.3</u>	<u>1,040,130</u>	<u>4.9</u>	<u>(136,693)</u>	(13.1)
 Total expenses	 <u>\$21,293,521</u>	 <u>100.0</u>	 <u>\$21,419,409</u>	 <u>100.0</u>	 <u>\$(125,888)</u>	 (0.6)

Fiscal year 2002 other operating expenses were adjusted for \$76,880 depreciation on improvements other than buildings for assets incorrectly reported as nondepreciable assets in the prior year.

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

Financial Highlights and Analysis

The District's financial position remained stable. A cash decrease of \$678,805 accounted for a substantial portion of the decrease in assets other than capital assets. Major uses of cash were remuneration of employees for a 2 percent pay increase, payment of compensated absences consisting primarily of payments as a result of an early retirement option offered during fiscal year 2003, capital expenses, and principal and interest on long-term debt. Acquisitions of land, a building, equipment, and library resources increased capital assets \$565,563, but asset dispositions and depreciation decreased capital assets \$1,007,874 for a net decrease in capital assets of \$442,311. Current liabilities increased as a result of including all interest expenses due and payable through June 30, 2003, whereas, for fiscal year ended June 30, 2002, interest expense was reported only for amounts to be paid as of June 30, 2002.

Net assets decreased \$971,589, reflecting the decrease in capital assets, net of accumulated depreciation, a reduction in monies classified as restricted net assets used to pay capital lease payments that also reduced noncurrent liabilities, and a reduction of unrestricted net assets as a result of bookstore inventory clearance sales and payment of compensated absences to bookstore employees in anticipation of the outsourcing of bookstore activity in July 2003.

Tuition and fees revenue increased reflecting a 3.8 percent increase in Full-Time Student Equivalent (FTSE) as well as increased enrollment in programs with higher lab and special project fees, such as nursing and surgical technology. Government grants and contracts revenue increased as a result of additional awards of federal financial aid due to increased enrollment, and increased grant monies for the Adult Education and Tech-Prep Education programs. State budget cuts in tight economic conditions resulted in a decrease in the District's share of state appropriations for community colleges—an 8 percent decrease for the nonoperating revenues portion and a 6.5 percent decrease for the capital appropriations portion. Capital grants and gifts increased as a result of the District receiving donated properties, including several parcels of land and a building.

Generally, expenses were curtailed as a result of the state appropriation reduction. To meet its goal of providing accessible higher education, the District outsourced technical support to Collegis, Inc., to help provide reliable infrastructure and support for on-line instruction and to improve technology resources and communication among all four campuses. The outsourcing resulted in an increase in institutional support of \$417,300. No major computer purchases were made in fiscal year 2003 resulting in a \$241,532 reduction in academic support expenses compared to fiscal year 2002. The necessity to reduce spending resulted in deferment of several maintenance projects to fiscal years 2004 and 2005, resulting in lower operation and maintenance of plant expenses in fiscal year 2003 compared to fiscal year 2002. Increased enrollment resulted in increased auxiliary activity in the bookstores and in food services. Other nonoperating expenses reported in fiscal year 2002 were one-time costs associated with issuing pledged revenue obligations used to advance-refund the District's Series 1994 Certificates of Participation.

Mohave County Community College District Management's Discussion and Analysis For the Year Ended June 30, 2003

Capital Assets

Increases to capital assets included: donated land and a building adjacent to the Lake Havasu Campus; improvements such as sidewalk ramps and rails to meet Americans with Disabilities Act requirements and landscaping enhancements at the Kingman Campus; acquisitions of technology equipment upgrades needed to improve service to the campuses and allow for expansion of education to telecommuting students; a CathSim Intravenous System for the nursing program; and additions and updates to the library collections. The District disposed of ten older vehicles, which were not replaced. Although total capital assets increased by a net amount of \$396,272 to \$26,481,465, capital assets, net of depreciation decreased from \$16,168,535 to \$15,726,224. Additional information on the District's capital assets can be found in Note 4 to the basic financial statements.

Long-Term Debt

At June 30, 2003, the District had \$12,277,333 of long-term debt outstanding, including revenue bonds of \$3,150,000, pledged revenue obligations of \$8,830,000, and three capital leases of \$297,333. No new long-term debt was incurred in fiscal year 2003. During fiscal year 2003, principal reductions on pledged revenue obligations and capital leases totaled \$150,000 and \$190,476, respectively. Additional information on the District's long-term debt can be found in Note 5 to the basic financial statements.

Current Economic Conditions

For the year ended June 30, 2003, economic conditions in Mohave County remained uncertain, while demands for educational services rose slightly. Fiscal year 2003 FTSE increased 3.8 percent over fiscal year 2002. In Spring 2003, the District began an annual review of various course fees, and revisions have been implemented as appropriate. The Board approved a five-year tuition plan that set fiscal year 2004 tuition at \$38 per credit hour with an increase of \$4 per credit hour effective for fiscal year 2005.

Management has continued to implement actions that increase revenues and improve efficiency. Although enrollment for the year ended June 30, 2004, was stable, many factors are expected to positively impact enrollment in fiscal year 2005. On-line course offerings have increased to service students in remote areas of the County and to provide alternative scheduling. New demand programs such as dental hygiene are being added and/or planned; and other programs such as nursing are being expanded. Vocational-technical fields have received more emphasis and resources, and employers have responded enthusiastically to the District's increased emphasis on continuing education/extended studies. Since July 14, 2003, Barnes and Noble has operated the Kingman, Lake Havasu, and Bullhead campus bookstores. This outsourcing arrangement has allowed the District to focus resources in other areas while achieving efficiency in the bookstore operation. Financial aid awards to students have been substantially increased due to the increase in federal grants to meet students' needs. Although future state appropriations may decrease, appropriations were not reduced in the year ended June 30, 2004, and a 2 percent increase is

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

expected in fiscal year 2005. Reduction of the District's vehicle fleet has reduced operational and maintenance costs.

Current Factors Having a Probable Future Financial Significance

In October 2003, the District broke ground for construction of the Legacy Foundation Allied Health Sciences building at the Bullhead campus. The new structure, completed in August 2004, will house a new dental hygiene program starting Fall 2004, allow expansion of the nursing program, and provide improved laboratory conditions for the physical sciences. The total cost of about \$1,300,000, including about \$225,000 of furnishings and equipment, is being supported with donations. The largest donation, \$1,200,000, is being contributed by BHHS Legacy Foundation.

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 Avenue, Kingman, AZ 86401.

Mohave County Community College District
Statement of Net Assets
June 30, 2003

Assets

Current assets:	
Cash and cash equivalents	\$ 1,502,161
Receivables:	
Accounts	72,162
Property taxes (net of allowances of \$392,546)	834,722
Government grants and contracts	317,018
Student loans, current portion (net of allowances of \$1,567)	168,200
Other	264,520
Inventories	264,838
Prepaid items	19,018
Total current assets	<u>3,442,639</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	146,020
Cash and investments held by trustee	47,958
Student loans receivable (net of allowances of \$17,920)	11,463
Capital assets, not being depreciated	638,098
Capital assets, being depreciated, net	<u>15,088,126</u>
Total noncurrent assets	<u>15,931,665</u>
Total assets	<u>19,374,304</u>

(Continued)

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Net Assets
June 30, 2003
(Continued)

Liabilities

Current liabilities:

Accounts payable	\$ 158,392
Accrued payroll and employee benefits	162,520
Interest payable	219,500
Deferred revenues	115,555
Deposits held in custody for others	146,020
Current portion of compensated absences payable	87,396
Current portion of long-term debt	<u>467,057</u>
Total current liabilities	<u>1,356,440</u>

Noncurrent liabilities:

Compensated absences payable	201,692
Deferred contract payments	83,400
Long-term debt	<u>11,810,276</u>
Total noncurrent liabilities	<u>12,095,368</u>

Total liabilities	<u>13,451,808</u>
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Net Assets

Invested in capital assets, net of related debt	3,553,967
Restricted:	
Nonexpendable—student loans	45,293
Expendable:	
Grants and contracts	55,991
Debt service	33
Capital projects	656,656
Unrestricted	<u>1,610,556</u>
Total net assets	<u>\$ 5,922,496</u>

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2003

Operating revenues:	
Tuition and fees (pledged as security for long-term debt and net of scholarship allowances of \$436,049)	\$ 2,122,844
Government grants and contracts	2,182,375
Private grants and contracts	67,934
Bookstore income (pledged as security for long-term debt)	1,249,195
Food service income (pledged as security for long-term debt)	33,365
Other sales and services (pledged as security for long-term debt)	221,298
Other	<u>23,490</u>
Total operating revenues	<u>5,900,501</u>
Operating expenses:	
Educational and general:	
Instruction	5,668,524
Public service	118,695
Academic support	3,827,995
Student services	1,262,246
Institutional support	3,715,656
Operation and maintenance of plant	1,513,825
Scholarships	1,680,538
Auxiliary enterprises	1,595,387
Depreciation	996,721
Other	<u>10,497</u>
Total operating expenses	<u>20,390,084</u>
Operating loss	<u>(14,489,583)</u>
Nonoperating revenues (expenses):	
Property taxes	9,515,110
State appropriations	3,630,300
Share of state sales taxes	382,268
Private gifts	84,887
Investment income, net of investment expense	101,787
Interest expense on debt	(903,437)
Gain on disposal of capital assets	<u>37,661</u>
Total nonoperating revenues	<u>12,848,576</u>
Loss before other revenues, expenses, gains, or losses	<u>(1,641,007)</u>
Capital appropriations	440,400
Capital grants and gifts	<u>229,018</u>
Decrease in net assets	(971,589)
Total net assets, July 1, 2002, as restated	<u>6,894,085</u>
Total net assets, June 30, 2003	<u><u>\$ 5,922,496</u></u>

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Cash Flows
Year Ended June 30, 2003

Cash flows from operating activities:	
Tuition and fees	\$ 2,083,440
Grants and contracts	1,979,782
Bookstore receipts	1,327,248
Food service receipts	32,356
Sales and services	221,298
Collection of loans to students	3,218
Other receipts	23,140
Payments to suppliers and providers of goods and services	(4,541,867)
Payments to employees	(13,231,873)
Loans issued to students	(3,600)
Payments for scholarships	<u>(1,669,401)</u>
Net cash used for operating activities	<u>(13,776,259)</u>
Cash flows from noncapital financing activities:	
Property taxes	9,659,001
State appropriations	3,630,300
Share of state sales taxes	382,268
Noncapital grants and gifts	84,887
Deposits held in custody for others received	278,101
Deposits held in custody for others disbursed	<u>(262,575)</u>
Net cash provided by noncapital financing activities	<u>13,771,982</u>
Cash flows from capital and related financing activities:	
Capital appropriations	440,400
Capital grants and gifts	85,806
Proceeds from sale of capital assets	47,445
Principal paid on capital debt	(340,476)
Interest paid on capital debt	(683,937)
Payments made to contractors	(38,383)
Purchases of capital assets	<u>(287,510)</u>
Net cash used for capital and related financing activities	<u>(776,655)</u>
Cash flows from investing activities:	
Interest received on investments, net	<u>102,127</u>
Net cash provided by investing activities	<u>102,127</u>
Net decrease in cash and cash equivalents	(678,805)
Cash and cash equivalents, July 1, 2002	<u>2,374,944</u>
Cash and cash equivalents, June 30, 2003	<u>\$ 1,696,139</u>

(Continued)

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Cash Flows
Year Ended June 30, 2003
(Continued)

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (14,489,583)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	996,721
Changes in assets and liabilities:	
Increase in:	
Government grants and contracts receivable	(264,744)
Student loans receivable, net of allowances	(106,735)
Prepaid items	(8,706)
Deferred revenues	78,139
Deferred contract payments	83,400
Decrease in:	
Accounts receivable	48,724
Other receivables	4,441
Inventories	79,762
Accounts payable	(25,880)
Accrued payroll and employee benefits	(108,802)
Compensated absences payable	(62,996)
Net cash used for operating activities	<u>\$ (13,776,259)</u>
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and cash equivalents	\$ 1,502,161
Restricted assets:	
Cash and cash equivalents	146,020
Cash and investments held by trustee	47,958
Total cash and cash equivalents, June 30, 2003	<u>\$ 1,696,139</u>
Noncash investing, capital, and noncapital financing activities:	
Capital assets acquired through donations	\$ 211,018
Capital assets acquired by donor's direct payments to vendor	28,652

See accompanying notes to financial statements.

Mohave County Community College District
Notes to Financial Statements
June 30, 2003

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Mohave 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).

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 Mohave Community College Foundation, Inc. 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 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.

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.

Mohave County Community College District
Notes to Financial Statements
June 30, 2003

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. 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 Financial Accounting Standards Board (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

The bookstore 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:

Mohave County Community College District
Notes to Financial Statements
June 30, 2003

	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

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 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at the fiscal 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.

Sick leave benefits provide for ordinary sick pay and are cumulative but do 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 may accrue is 600 hours, for a maximum payout of \$3,000. Only vested sick leave 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.

Mohave County Community College District
Notes to Financial Statements
June 30, 2003

Note 2 - Beginning Balance Restated

The District incorrectly classified \$1,647,667 of depreciable assets acquired in prior years as nondepreciable land improvements. The improvements should have been classified as improvements other than buildings and reported net of accumulated depreciation. As a result, the District restated beginning net assets for the accumulated depreciation pertaining to these assets as follows:

Net assets at June 30, 2002, as previously reported	\$ 7,990,954
June 30, 2002, accumulated depreciation not reported	<u>(1,096,869)</u>
Net assets at July 1, 2002, as restated	<u>\$ 6,894,085</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.

Cash on Hand—At June 30, 2003, the District had \$17,303 of cash on hand.

Deposits—At June 30, 2003, the carrying amount of the District's deposits was \$279,669, and the bank balance was \$584,047. Of the bank balance, \$129,534 was covered by federal depository insurance or by collateral held by the District or its agent in the District's name, and \$454,513 was covered by collateral held by the pledging financial institution's trust department or agent in the District's name.

Investments—At June 30, 2003, the District's investments consisted of the following:

	Fair Value
Cash and investments held by the County Treasurer	\$1,351,209
Cash and investments held by trustee	<u>47,958</u>
Total	<u>\$1,399,167</u>

The District's cash and investments in the County Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk. Further, the County Treasurer's investment pool is not subject to any oversight or advisory groups, and that pool's structure does not provide for shares.

Mohave County Community College District
Notes to Financial Statements
June 30, 2003

Cash and investments held by trustee are invested in money market funds that consist of U.S. government securities that are purchased by the trustee and held in the trustee's custodial account with the Federal Reserve Bank. The District's proportionate share in the money market funds equals the amount invested.

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

Cash and investments:		Statement of Net Assets:	
Cash on hand	\$ 17,303	Cash and cash equivalents	\$1,502,161
Carrying amount of deposits	279,669	Restricted assets:	
Reported amount of investments	<u>1,399,167</u>	Cash and cash equivalents	146,020
Total	<u>\$1,696,139</u>	Cash and investments held by trustee	<u>47,958</u>
		Total	<u>\$1,696,139</u>

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

	Balance July 1, 2002, as restated	Increases	Decreases	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 548,467	\$ 89,631		\$ 638,098
Total capital assets not being depreciated	<u>548,467</u>	<u>89,631</u>		<u>638,098</u>
Capital assets being depreciated:				
Buildings and improvements	19,730,983	181,308		19,912,291
Improvements other than buildings	1,647,667	146,165		1,793,832
Equipment	2,518,629	46,765	\$(162,827)	2,402,567
Library books	<u>1,639,447</u>	<u>101,694</u>	<u>(6,464)</u>	<u>1,734,677</u>
Total capital assets being depreciated	<u>25,536,726</u>	<u>475,932</u>	<u>(169,291)</u>	<u>25,843,367</u>
Less accumulated depreciation for:				
Buildings and improvements	5,492,699	709,275		6,201,974
Improvements other than buildings	1,096,869	78,441		1,175,310
Equipment	1,943,807	155,249	(151,674)	1,947,382
Library books	<u>1,383,283</u>	<u>53,756</u>	<u>(6,464)</u>	<u>1,430,575</u>
Total accumulated depreciation	<u>9,916,658</u>	<u>996,721</u>	<u>(158,138)</u>	<u>10,755,241</u>
Total capital assets being depreciated, net	<u>15,620,068</u>	<u>(520,789)</u>	<u>(11,153)</u>	<u>15,088,126</u>
Capital assets, net	<u>\$16,168,535</u>	<u>\$(431,158)</u>	<u>\$(11,153)</u>	<u>\$15,726,224</u>

See Note 2 for explanation regarding restated capital assets balances at July 1, 2002.

Mohave County Community College District
Notes to Financial Statements
June 30, 2003

Note 5 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2003:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due within one year
Compensated absences payable	<u>\$ 352,084</u>	<u>\$94,673</u>	<u>\$157,669</u>	<u>\$ 289,088</u>	<u>\$ 87,396</u>
Deferred contract payments		<u>\$83,400</u>		<u>83,400</u>	
Revenue bonds payable	3,150,000			3,150,000	
Pledged revenue obligations	8,980,000		150,000	8,830,000	305,000
Capital leases payable	<u>487,809</u>		<u>190,476</u>	<u>297,333</u>	<u>162,057</u>
Total long-term debt	<u>\$12,617,809</u>		<u>\$340,476</u>	<u>\$12,277,333</u>	<u>\$467,057</u>

See Note 9 for explanation of deferred contract payments at June 30, 2003.

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, 2003, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rate	Outstanding Principal
Series 2000	\$3,150,000	2016-2020	6%	\$3,150,000

The following schedule details debt service requirements to maturity for the District's revenue bonds payable at June 30, 2003:

Year ending June 30,	Principal	Interest
2004		\$ 189,000
2005		189,000
2006		189,000
2007		189,000
2008		189,000
2009-13		945,000
2014-18	\$1,780,000	842,400
2019-20	<u>1,370,000</u>	<u>124,500</u>
Total	<u>\$3,150,000</u>	<u>\$2,856,900</u>

Mohave County Community College District
Notes to Financial Statements
June 30, 2003

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 12 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, 2003, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Series 2000	\$4,350,000	2010-2015	5.5%	\$4,350,000
Series 2001 Refunding	4,630,000	2004-2015	3.75-5.75	4,480,000

The following schedule details debt service requirements to maturity for the District's pledged revenue obligations at June 30, 2003:

Year ending June 30,	Series 2000		Series 2001	
	Principal	Interest	Principal	Interest
2004		\$ 239,250	\$ 305,000	\$ 219,165
2005		239,250	320,000	206,660
2006		239,250	335,000	192,260
2007		239,250	350,000	175,510
2008		239,250	340,000	157,135
2009-13	\$2,735,000	980,650	1,915,000	552,022
2014-15	<u>1,615,000</u>	<u>133,925</u>	<u>915,000</u>	<u>71,178</u>
Total	<u>\$4,350,000</u>	<u>\$2,310,825</u>	<u>\$4,480,000</u>	<u>\$1,573,930</u>

In prior years, the District defeased the Series 1994 Certificates of Participation by placing the proceeds of the Series 2001 Refunding Pledged Revenue Obligations in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for these defeased certificates of participation are not included in the District's financial statements and at June 30, 2003, the balance of \$3,335,000 was considered defeased.

Mohave County Community College District
Notes to Financial Statements
June 30, 2003

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 or a transfer of ownership by the end of the lease term. However, only \$102,424 of such assets are capitalized at June 30, 2003.

Equipment	\$102,424
Less: accumulated depreciation	<u>51,212</u>
Carrying value	<u>\$ 51,212</u>

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2003:

Year ending June 30,	
2004	\$176,905
2005	112,487
2006	<u>29,198</u>
Total minimum lease payments	318,590
Less amount representing interest	<u>21,257</u>
Present value of net minimum lease payments	<u>\$297,333</u>

Note 6 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates with four other Arizona 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, automobile, boiler and machinery, 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 1 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.

Mohave County Community College District
Notes to Financial Statements
June 30, 2003

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 District withdraw from the Consortium, it 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 7 - 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 \$62,145 for the year ended June 30, 2003. The operating leases have remaining noncancelable terms of from 1 to 5 years. The future minimum payments required under the operating leases at June 30, 2003, were as follows:

Year ending June 30,	
2004	\$ 55,674
2005	29,160
2006	12,873
2007	11,857
2008	<u>6,132</u>
Total minimum lease payments	<u>\$115,696</u>

Note 8 - Retirement Plan

Plan descriptions—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, 2003, 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

Mohave County Community College District
Notes to Financial Statements
June 30, 2003

the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2003, 2002, and 2001, were \$228,787, \$224,598 and \$214,758, respectively, which were equal to the required contributions for the year.

Note 9 - 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).

The following schedule details annual payments under this agreement based on the CPI-U at June 30, 2003:

Year ending June 30,	
2004	\$ 966,286
2005	1,597,384
2006	1,572,134
2007	1,572,134
2008	1,572,134
2009-10	<u>2,255,270</u>
Total	<u>\$9,535,342</u>

The amounts listed above will be expenses in future years when the services are performed. The amount of \$417,300 was recorded as an expense in the current year for services performed through June 30, 2003. Of this amount, \$83,400 is reported as a liability for deferred contract payments at June 30, 2003.

Note 10 - 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:

Mohave County Community College District
Notes to Financial Statements
June 30, 2003

Personal services	\$13,064,266
Contract services	1,058,975
Supplies and other services	2,484,561
Communications and utilities	814,507
Scholarships	1,680,538
Depreciation	996,721
Other	<u>290,516</u>
Total	<u>\$20,390,084</u>

Note 11 - Subsequent Events

Beginning July 14, 2003, the District contracted on a commission basis with a large national college bookstore company to operate and manage three of the District's bookstores. The District will collect a 4.5 percent commission based on gross bookstore sales. The contract is renewable annually and extends through June 30, 2008. The District sold the Kingman, Lake Havasu City, and Bullhead City campus bookstore inventories on July 14, 2003, as a result of outsourcing these operations; however, the inventories for the North Mohave campus will continue to be reported in the District's financial statements.

In July 2003, the BHHS Legacy Foundation donated \$1.2 million to the District to pay for the development, construction, and furnishing of the Legacy Foundation Allied Health Sciences building to house health sciences programs, including a new dental hygiene program and expansion of the existing nursing program, at the District's Bullhead City campus. Construction of the Legacy Foundation Allied Health Sciences building, which began in October 2003, will be completed in August 2004 in time to begin the Fall 2004 semester. The new and expanded health sciences programs should have a positive impact on the District's future enrollment.

Supplementary Information

Mohave County Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

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		\$ <u>1,315</u>
U.S. Small Business Administration			
Passed through the Maricopa County Community College District			
Small Business Development Center	59.037	2-603001-Q-0003-10, 3-603001-Z-0003-11	<u>69,038</u>
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		86,024
Federal Work-Study Program	84.033		56,090
Federal Perkins Loan Program—Federal Capital Contributions	84.038		17,764
Federal Pell Grant Program	84.063		<u>1,423,099</u>
Total Student Financial Assistance Cluster			<u>1,582,977</u>
Passed through the Arizona Department of Education			
Adult Education—State Grant Program	84.002	03FAEABE-370556-02A	140,000
Vocational Education—Basic Grants to States	84.048	02FVEDBG-270556-04A, 03FCTDBG-370556-04A	92,482
Tech-Prep Education	84.243	02FVEDTP-270556-03A, 03FCTDTP-370556-03A	128,402
Passed through the Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	011864	<u>12,383</u>
Total U.S. Department of Education			<u>1,956,244</u>
Total Expenditures of Federal Awards			<u><u>\$2,026,597</u></u>

See accompanying notes to schedule.

Mohave County Community College District
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

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 2003 *Catalog of Federal Domestic Assistance*.

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 \$17,764 in loan balances outstanding at June 30, 2003.

Note 4 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 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 and on Internal Control over
Financial Reporting Based on an Audit of Basic Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Governing Board of
Mohave County Community College District

We have audited the basic financial statements of Mohave County Community College District as of and for the year ended June 30, 2003, and have issued our report thereon dated August 13, 2004. 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 basic 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*. However, we noted certain immaterial instances of noncompliance that we will report to the District's management in a separate letter.

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 basic 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 matters in internal control 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 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. However, we noted other matters involving internal control over financial reporting that we will report to the District's management in a separate letter.

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

August 13, 2004



**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
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, 2003. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on 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, 2003.

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 matters in internal control 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 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 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

August 13, 2004

Mohave County Community College District
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2003

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified	
	Yes	No	
Material weakness identified in internal control over financial reporting?	___	<u>X</u>	
Reportable condition identified not considered to be a material weakness?	___	<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 condition identified not considered to be a material weakness?	___	<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
84.033	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?	<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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