

Mohave County Community College District

Single Audit Reporting Package

Year Ended June 30, 2004

Mohave County Community College District
Single Audit Reporting Package
Year Ended June 30, 2004

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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, 2004, 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, 2004, 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 Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, for the year ended June 30, 2004, which requires reporting as a component unit those organizations that raise and hold economic resources for the direct benefit of the District or its constituents.

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 April 21, 2005 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.



April 21, 2005



Mohave

Community College

Board of Governors

Sally Eggers-Hero
Lynda French
Dan Hargrove
John Neal
Victor Wakimoto

www.mohave.edu

Management's Discussion & 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, 2004. 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, 2004. 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, 2004. 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, 2004. 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, 2004

Although the primary focus of this document is on the results of activity for fiscal year 2004, comparative data is presented for the previous fiscal year 2003. 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.

<u>Statement of Net Assets</u>	<u>As of June 30, 2004</u>	<u>As of June 30, 2003</u>
Current assets	\$ 4,463,887	\$ 3,442,639
Noncurrent assets, other than capital assets	198,182	205,441
Capital assets, net	16,007,108	15,726,224
Total assets	<u>20,669,177</u>	<u>19,374,304</u>
Long-term liabilities	12,404,008	12,649,821
Other liabilities	1,135,274	801,987
Total liabilities	<u>13,539,282</u>	<u>13,451,808</u>
Net assets:		
Invested in capital assets, net of related debt	4,101,290	3,553,967
Restricted net assets	1,383,656	757,973
Unrestricted net assets	1,644,949	1,610,556
Total net assets	<u><u>\$ 7,129,895</u></u>	<u><u>\$ 5,922,496</u></u>

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2004

The District's fiscal year 2004 financial position improved significantly, 20% stronger than fiscal year end 2003, as a result of the District's new tuition and fees structure, increased capital gifts to support the new BHHS Legacy Foundation Allied Health Building completed in August, 2004, and increased emphasis on efficiency and effectiveness to manage program costs.

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 \$2,778,253 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.

Statement of Revenues, Expenses, and Changes in Net Assets	For the Year Ended June 30, 2004	For the Year Ended June 30, 2003
Operating revenues	\$ 6,564,639	\$ 5,900,501
Operating expenses		
Educational and general	19,728,316	17,787,479
Auxiliary enterprises	415,948	1,595,387
Depreciation	944,514	996,721
Other	160	10,497
Total operating expenses	<u>21,088,938</u>	<u>20,390,084</u>
Operating loss	(14,524,299)	(14,489,583)
Nonoperating revenues	14,996,969	13,752,013
Nonoperating expenses	(657,371)	(903,437)
Loss before other revenues, expenses, gains or losses	<u>(184,701)</u>	<u>(1,641,007)</u>
Other revenues, expenses, gains or losses:		
Contributions	<u>1,392,100</u>	<u>669,418</u>
Increase (decrease) in net assets	1,207,399	(971,589)
Net assets, Beginning of year	5,922,496	6,894,085
Net assets, End of year	<u>\$ 7,129,895</u>	<u>\$ 5,922,496</u>

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Although full-time student equivalents (FTSE) remained stable, operating revenues increased as a result of the District's new tuition and fee structure, increased distance education offerings, and increased government grants and contracts. Bookstore operations were outsourced in July, 2003, resulting in a decrease in both revenue and expenses for auxiliary enterprises; however, the net result of the operating change was income of \$21,390 compared to a loss of \$129,012 in fiscal year 2003. Operating expenses rose a modest 3.4 percent as the District's management restructure took effect and analysis of program efficiency and effectiveness continued.

The District's share of property tax revenue increased 14%, or \$1,358,364, as a result of continued growth in Mohave County. State appropriations for operating and capital remained the same as they were in fiscal year 2003. Nonoperating expenses--interest on debt--decreased as payments of principal decreased outstanding debt.

Capital gifts to construct and equip the BHHS Legacy Foundation Allied Health Building on the Bullhead campus resulted in a \$722,682 increase in other revenues, expenses, gains, and losses.

The following schedule presents a summary and comparison of revenues for the fiscal years ended June 30, 2004 and June 30, 2003:

<u>Revenues by Source</u>	Fiscal Year 2004		Fiscal Year 2003		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
<u>Operating revenues</u>						
Tuition and fees (net of scholarship allowances)	\$ 2,778,253	12.1	\$ 2,122,844	10.5	\$ 655,409	30.9
Government grants and contracts	2,682,220	11.7	2,182,375	10.7	499,845	22.9
Bookstore income	383,674	1.7	1,249,195	6.1	(865,521)	-69.3
Other operating revenues	720,492	3.1	346,087	1.7	374,405	108.2
Total operating revenues	6,564,639	28.6	5,900,501	29.0	664,138	11.3
<u>Nonoperating revenues</u>						
Property taxes	10,873,474	47.4	9,515,110	46.8	1,358,364	14.3
State appropriations	3,630,300	15.8	3,630,300	17.9	-	0.0
Other	493,195	2.2	606,603	3.0	(113,408)	-18.7
Total nonoperating revenues	14,996,969	65.4	13,752,013	67.7	1,244,956	9.1
Capital appropriations	440,400	1.9	440,400	2.2	-	0.0
Capital grants and gifts	951,700	4.1	229,018	1.1	722,682	315.6
Total revenues	\$ 22,953,708	100.0	\$ 20,321,932	100.0	\$ 2,631,776	13.0

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, 2004

The following schedule presents a summary and comparison of expenses for the fiscal years ended June 30, 2004 and June 30, 2003:

<u>Expenses by Function</u>	Fiscal Year 2004		Fiscal Year 2003		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
<u>Operating expenses</u>						
Education and general:						
Instruction	\$ 5,598,586	25.7	\$ 5,668,524	26.6	\$ (69,938)	-1.2
Academic support	2,685,363	12.4	3,827,995	18.0	(1,142,632)	-29.8
Student services	2,408,423	11.1	1,262,246	5.9	1,146,177	90.8
Institutional support	5,150,994	23.7	3,715,656	17.4	1,435,338	38.6
Operation and maintenance						
of plant	1,837,077	8.4	1,513,825	7.1	323,252	21.4
Scholarships	1,942,755	8.9	1,680,538	7.9	262,217	15.6
Other	105,118	0.5	118,695	0.6	(13,577)	-11.4
Auxiliary enterprises	415,948	1.9	1,595,387	7.5	(1,179,439)	-73.9
Other operating expenses	944,674	4.4	1,007,218	4.7	(62,544)	-6.2
Total operating expenses	<u>21,088,938</u>	<u>97.0</u>	<u>20,390,084</u>	<u>95.7</u>	<u>698,854</u>	<u>3.4</u>
<u>Nonoperating expenses</u>						
Interest expense on debt	657,371	3.0	903,437	4.3	(246,066)	-27.2
Total expenses	<u>\$ 21,746,309</u>	<u>100.0</u>	<u>\$ 21,293,521</u>	<u>100.0</u>	<u>\$ 452,788</u>	<u>2.1</u>

Because of the major restructuring that occurred in fiscal year 2004, many expenses reported in one function that year were reported in a different function for fiscal year 2003, which accounts for many of the significant dollar increases/(decreases) and percent of change amounts in the above table. Please refer to the Financial Highlights and Analysis section for a discussion of major changes and effects on the various functions.

Financial Highlights and Analysis

The District's financial position at June 30, 2004 was stronger than at June 30, 2003, as a result of management's restructuring and cost management efforts. Cash and cash equivalents increased \$846,631, the result of several factors. Increases in tuition and fees, net of scholarships, property taxes and tax collections, government grants and contracts, and capital giving resulted in more cash. Inventories decreased \$252,547 as bookstore inventories for the Kingman, Lake Havasu, and Bullhead campuses were sold in the outsourcing of that activity. Prepaid items increased \$325,810 as payments due July 1 were processed in late June to avoid late charges; otherwise, cash and cash equivalents would have been higher.

Construction in progress resulted in a \$753,077 increase in capital assets, not being depreciated as the BHHS Legacy Foundation Allied Health Building was 45% complete at June 30, 2004. Capital assets being depreciated increased \$472,321 as the District completed additional roads, the truck driver training course, a mobile office, and landscaping of the Kingman campus; and acquired instructional equipment and library books. However, depreciation--reduced by asset dispositions, net of depreciation--decreased capital assets

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2004

\$944,514. The net increase in capital assets was \$280,884. Current liabilities increased as a direct result of construction progress billings for construction completed in June, but not paid until July.

Net assets increased \$1,207,399, reflecting: the increase in capital assets, net of accumulated depreciation, increased restricted net assets for capital gifts to complete the BHHS Legacy Foundation Allied Health Building, and an increase in unrestricted net assets as a result of increased revenues in excess of increased expenses.

Tuition and fees revenue increased 30.9% as a result of the restructured tuition schedule that provided for tuition per credit of \$38 per credit hour and eliminated the technology fee. A restructured student fee schedule allowed charges that more nearly matched costs for special programs. Government grants and contracts revenue increased 22.9% as a result of additional awards of federal financial aid to students and increased grant monies for the Adult Education, Vocational Education, and Tech-Prep Education programs. Although bookstore revenue showed a 69.3% decrease, expenses declined 73.9% as the outsourcing operation began in July, 2003. Population and business growth in Mohave County increased property tax revenue 14.3%, or \$1,358,364. State appropriations for operating and capital remained the same. Plans to construct and equip the BHHS Legacy Foundation Allied Health Building resulted in a 315.6% increase in capital grants and gifts.

Total expenses increased only 2.1% and operating expenses increased a modest 3.4%; however, the changes within major classifications were significant. Restructuring in several areas of the college distorted the comparative figures for fiscal years 2004 and 2003. Major restructuring changes included moving the following activities:

- (1) Adult Basic Education/GED from instruction to student services (over \$500,000 difference in fiscal year 2004),
- (2) administrative costs for ABE/GED from academic support to student services (over \$265,000 difference in fiscal year 2004),
- (3) technology support services from academic support to institutional support (about \$900,000 difference in fiscal year 2004) and
- (4) student services administration from institutional support to student services (over \$150,000 difference in fiscal year 2004).

All Foundation Studies (ABE/GED) activities and related costs are now part of student services and all technology support services and related costs are now included in institutional support. In addition, all college-paid work study was charged to student services in fiscal year 2004; however, in the fiscal year 2003, approximately \$140,000 was spread among instruction, academic support, institutional support, operation and maintenance of plant, and auxiliary enterprises. No costs within any classification are allocated to any other classification.

Without ABE/GED, instructional costs would have risen about 10% from fiscal year 2003 to fiscal year 2004. This increase includes a 4% salary raise for all continuing faculty, and includes over \$300,000 cost for full-time division chairs. Restructuring reduced four divisions to two divisions and added six full-time division chairs, two each on the Kingman, Lake Havasu, and Bullhead campuses. Previously, four full-time faculty were named division chairs and each

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2004

person was compensated \$16,000 for additional duties as chair. Other costs, such as supplies and travel, decreased as division chairs kept program costs at or below budgeted expectations.

Although continuing personnel received 4% salary and wage increases, realignment of academic administration from four division vice presidents to four campus deans reduced expenses in academic support. Administrative costs to plan the new dental hygiene program and obtain accreditation cost \$64,574. Other operating costs were reduced as part of the overall cost management effort. On a comparable basis, academic support would have risen about 5% in fiscal 2004 compared to fiscal 2003.

Considering that the restructure of student services included all administrative costs as well as all ABE/GED (Foundation Studies) and college-paid work study students, on a comparable basis, fiscal year 2004 would have shown about a 4% increase instead of the 90.8% increase indicated in the summary and comparison schedule of expenses by function. A 4% increase is expected with the 4% salary and wage increase for all continuing personnel.

Technology support services was centralized in institutional support as part of the outsourcing of that function in January 2003. That change and others described above would have resulted in about one-third the increase indicated in the schedule of expenses by function. Other increases occurred as the District contracted with professional service organizations to study the college's student services and financial aid areas and make recommendations for improvement and to provide the District with a marketing assessment and recommendations for changes.

Increases in insurance and utility rates contributed to the increase in maintenance and operation of plant costs. Over \$200,000 was expended on deferred and other maintenance to have buildings and equipment functioning and performing as intended. The restructuring also required interior remodeling to buildings to accommodate the various service areas that were changed.

Additional grants and grant increases provided more scholarship monies for students. Auxiliary enterprises expenses decreased as a direct result of outsourcing the bookstore operations (discussed previously). Interest expense on debt, the only nonoperating expense, decreased because debt principal payments reduced the amounts on which interest is calculated.

Capital Assets

The major addition to capital assets was \$753,077 construction in progress for 45% completion of the BHHS Legacy Foundation Allied Health Building being constructed on the Bullhead campus. The building was completed and equipped in August, 2004 for a total cost of about \$1.3 million. The new building houses the new Dental Hygiene program, new laboratories for the physical sciences, and expanded facilities for nursing. On the Kingman campus, a roadbed for the truck driver training course, new paved roads for the central campus, and new entrance signs and additional landscaping were completed in fiscal year 2004 at a cost of \$146,167. New equipment acquired during the fiscal year included \$43,447 of educational equipment; \$29,626 upgraded technology and a vehicle for the distance education and continuing education programs, respectively; \$51,398 for technology upgrades to support ITV and the North Mohave campus; \$73,926 for a new Alpha server for general institutional technology support; and

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2004

\$7,303 for miscellaneous equipment. Total equipment added to capital assets cost \$205,700. The District disposed of \$620,815 of fully depreciated equipment. Additional information on the District's capital assets can be found in Note 3 to the basic financial statements.

Long-Term Debt

At June 30, 2004, the District had \$11,825,379 of long-term debt outstanding, including revenue bonds of \$3,150,000, pledged revenue obligations of \$8,525,000, and two capital leases of \$150,379, including \$68,484 for the new Alpha server. During fiscal year 2004, principal reductions on pledged revenue obligations and capital leases totaled \$305,000 and \$215,438, 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 2004, economic conditions in Mohave County began to improve as new businesses and industry have provided additional revenues and jobs. A new prison facility outside Kingman has provided numerous opportunities for credit courses for prison employees and continuing education for prisoners. Although college enrollment for fiscal 2004 was stable, with no change in FTSE, fiscal year 2005 has seen growth in both semesters. The District implemented a new five-year tuition plan that set fiscal year 2004 tuition at \$38 per credit hour with an increase to \$42 per credit hour effective for fiscal year 2005, with student fees set to more nearly match costs for classes with labs or that provide supplies to students. The result has been revenue increases in both years. Increased enrollments in distance education have also contributed to revenue growth. Financial aid has been provided to as many students as possible, with the result that more students are able to enroll full-time. Revenues have also increased in fiscal year 2005 as the new dental hygiene program and a new culinary arts program began during the Fall 2004 semester. The truck driver training program has graduated over 40 truck drivers since the beginning of the 2004-2005 fiscal year. State appropriations, which did not change in fiscal year 2004, increased three percent in the 2004-2005 fiscal year; however, future levels of funding are uncertain. The District closed its Fredonia site and moved the building to the North Mohave campus during fiscal 2005.

The District is continuing to add programs as demand and resources permit. A strategic plan is being developed to help guide the District in the future.

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 86401.

Mohave County Community College District
Statement of Net Assets - Primary Government
June 30, 2004

Assets

Current assets:

Cash and cash equivalents	\$ 2,376,444
Receivables:	
Accounts	25,418
Property taxes (net of allowances of \$430,698)	562,479
Government grants and contracts	447,670
Donors, including \$164,922 from component unit	614,922
Student receivables (net of allowances of \$1,567)	53,174
Student loans, current portion	1,600
Interest	8,190
Other	16,871
Inventories	12,291
Prepaid items	344,828
Total current assets	4,463,887

Noncurrent assets:

Restricted assets:	
Cash and cash equivalents	118,207
Cash and investments held by trustee	48,119
Student loans receivable (net of allowances of \$17,920)	31,856
Capital assets, not being depreciated	1,391,175
Capital assets, being depreciated, net	14,615,933
Total noncurrent assets	16,205,290
 Total assets	 20,669,177

(Continued)

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Net Assets - Primary Government
June 30, 2004
(Continued)

Liabilities

Current liabilities:

Accounts payable	\$ 475,850
Accrued payroll and employee benefits	310,611
Interest payable	212,694
Deferred revenues	36,833
Deposits held in custody for others	99,286
Current portion of compensated absences payable	14,008
Current portion of deferred contract payments	82,700
Current portion of long-term debt	401,948
Total current liabilities	1,633,930

Noncurrent liabilities:

Compensated absences payable	248,021
Deferred contract payments	233,900
Long-term debt	11,423,431
Total noncurrent liabilities	11,905,352

Total liabilities	13,539,282
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Net Assets

Invested in capital assets, net of related debt	4,101,290
Restricted:	
Nonexpendable – student loans	45,845
Expendable:	
Grants and contracts	159,119
Debt service	21
Capital projects	1,178,671
Unrestricted:	1,644,949
Total net assets	\$ 7,129,895

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Net Assets – Component Unit
June 30, 2004

Assets

Cash and cash equivalents	\$ 473,269
Investments	2,046,852
Capital assets, net	143,192
Total assets	<u>2,663,313</u>

Liabilities

Amounts payable to college	164,922
Current portion of charitable annuities payable	20,992
Charitable annuities payable, net of current portion	135,414
Total liabilities	<u>321,328</u>

Net Assets

Unrestricted	1,510,371
Temporarily restricted	393,517
Permanently restricted	438,097
Total net assets	<u>\$ 2,341,985</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, 2004

Operating revenues:	
Tuition and fees (pledged as security for long-term debt and net of scholarship allowances of \$898,413)	\$ 2,778,253
Government grants and contracts	2,682,220
Private grants and contracts	259,594
Bookstore income (pledged as security for long-term debt)	383,674
Food service income (pledged as security for long-term debt)	36,649
Other sales and services (pledged as security for long-term debt)	252,054
Other	172,195
Total operating revenues	<u>6,564,639</u>
Operating expenses:	
Educational and general:	
Instruction	5,598,586
Public service	105,118
Academic support	2,685,363
Student services	2,408,423
Institutional support	5,150,994
Operation and maintenance of plant	1,837,077
Scholarships	1,942,755
Auxiliary enterprises	415,948
Depreciation	944,514
Other	160
Total operating expenses	<u>21,088,938</u>
Operating loss	<u>(14,524,299)</u>
Nonoperating revenues (expenses):	
Property taxes	10,873,474
State appropriations	3,630,300
Share of state sales taxes	404,124
Investment income, net of investment expense	58,054
Interest expense on debt	(657,371)
Gain on disposal of capital assets	31,017
Total nonoperating revenues	<u>14,339,598</u>
Loss before other revenues, expenses, gains, or losses	(184,701)
Capital appropriations	440,400
Capital grants and gifts	<u>951,700</u>
Increase in net assets	1,207,399
Total net assets, July 1, 2003	<u>5,922,496</u>
Total net assets, June 30, 2004	<u>\$ 7,129,895</u>

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Activities – Component Unit
Year Ended June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Contributions and dues	\$ 24,525	\$ 22,510	\$ 132,700	\$ 179,735
Interest/dividend income	55,421	20,522	-	75,943
Net realized/unrealized gains on investments	182,543	61,966	-	244,509
Special events	-	56,795	-	56,795
Rental income	11,844	-	-	11,844
Net assets released from restrictions:				
Satisfaction of program restrictions	107,336	(107,336)	-	-
Total revenues, gains, and other support	<u>381,669</u>	<u>54,457</u>	<u>132,700</u>	<u>568,826</u>
Expenses and losses:				
Accounting	5,970	-	-	5,970
Advertising	200	-	-	200
Auto/travel	716	-	-	716
Miscellaneous	6,241	-	-	6,241
Fund-raising	42,789	-	-	42,789
Property taxes	3,268	-	-	3,268
Payments to/for college	106,923	-	-	106,923
Distributions to beneficiaries of life income and life estates	22,228	-	-	22,228
Depreciation	5,893	-	-	5,893
Total expenses	<u>194,228</u>	<u>-</u>	<u>-</u>	<u>194,228</u>
Other expenses and losses:				
Rental expenses	748	-	-	748
Total expenses, other expenses, and losses	<u>194,976</u>	<u>-</u>	<u>-</u>	<u>194,976</u>
Change in net assets	186,693	54,457	132,700	373,850
Net assets at beginning of year	<u>1,323,678</u>	<u>339,060</u>	<u>305,397</u>	<u>1,968,135</u>
Net assets at end of year	<u>\$ 1,510,371</u>	<u>\$ 393,517</u>	<u>\$ 438,097</u>	<u>\$ 2,341,985</u>

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Cash Flows—Primary Government
Year Ended June 30, 2004

Cash flows from operating activities:	
Tuition and fees	\$ 2,783,745
Grants and contracts	2,811,162
Bookstore receipts	403,769
Food service receipts	36,943
Sales and services	252,054
Collection of loans to students	2,584
Other receipts	172,545
Payments to suppliers and providers of goods and services	(5,508,711)
Payments to employees	(12,365,570)
Loans issued to students	(8,500)
Payments for scholarships	(1,942,755)
Net cash used for operating activities	<u>(13,362,734)</u>
Cash flows from noncapital financing activities:	
Property taxes	11,145,718
State appropriations	3,630,300
Share of state sales taxes	404,124
Deposits held in custody for others received	240,689
Deposits held in custody for others disbursed	(287,423)
Net cash provided by noncapital financing activities	<u>15,133,408</u>
Cash flows from capital and related financing activities:	
Capital appropriations	440,400
Capital grants and gifts	501,700
Proceeds from sale of capital assets	32,386
Principal paid on capital debt	(520,438)
Interest paid on capital debt	(664,177)
Payments made to contractors	(459,798)
Purchases of capital assets	(303,980)
Net cash used for capital and related financing activities	<u>(973,907)</u>
Cash flows from investing activities:	
Interest received on investments, net	49,864
Net cash provided by investing activities	<u>49,864</u>
Net increase in cash and cash equivalents	846,631
Cash and cash equivalents, July 1, 2003	<u>1,696,139</u>
Cash and cash equivalents, June 30, 2004	<u>\$ 2,542,770</u>

(Continued)

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Cash Flows—Primary Government
Year Ended June 30, 2004
(Continued)

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (14,524,299)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	944,514
Changes in assets and liabilities:	
Increase in:	
Government grants and contracts receivable	(130,652)
Student loans receivable, net	(5,756)
Other receivables	(18,500)
Prepaid items	(325,810)
Accounts payable	24,179
Accrued payroll and employee benefits	148,091
Deferred contract payments	233,200
Decrease in:	
Accounts receivable	46,744
Student receivables, net	98,789
Inventories	252,547
Deferred revenues	(78,722)
Compensated absences payable	(27,059)
Net cash used for operating activities	<u>\$ (13,362,734)</u>
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and cash equivalents	\$ 2,376,444
Restricted assets:	
Cash and cash equivalents	118,207
Cash and investments held by trustee	48,119
Total cash and cash equivalents, June 30, 2004	<u>\$ 2,542,770</u>
Noncash investing, capital, and noncapital financing activities:	
Capital assets acquired by donor's direct payments to vendor	\$ 58,830
Capital assets acquired by capital lease	68,484

See accompanying notes to financial statements.

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

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, 2004, the District implemented the provisions of the Governmental Accounting Standards Board 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.

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.

During the year ended June 30, 2004, the Foundation distributed \$106,923 to the District for both restricted and unrestricted purposes. Complete financial statements

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

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 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

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

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

F. Investment Income

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

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

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.

Note 2 - 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 Mohave 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, 2004, the District had \$4,616 of cash on hand.

Deposits - At June 30, 2004, the carrying amount of the District's deposits was \$482,696, and the bank balance was \$1,001,961. Of the bank balance, \$115,614 was covered by federal depository insurance or by collateral held by the District or its agent in the District's name and \$886,347 was covered by collateral held by the pledging financial institution's trust department or agent in the District's name.

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

Investments - At June 30, 2004, the District's investments consisted of the following:

	Fair Value
Cash and investments held by the County Treasurer	\$ 2,007,339
Cash and investments held by trustee	48,119
Total	\$ 2,055,458

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.

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	\$ 4,616	Cash and cash equivalents	\$ 2,376,444
Carrying amount of deposits	482,696	Restricted assets:	
Reported amount of investments	2,055,458	Cash and cash equivalents	118,207
		Cash and investments held by trustee	48,119
Total	\$ 2,542,770	Total	\$ 2,542,770

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 638,098			\$ 638,098
Construction in progress (estimated cost to complete \$346,900)		\$ 753,077		753,077
Total capital assets not being depreciated	638,098	753,077		1,391,175
Capital assets being depreciated:				
Building and improvements	19,912,291	31,025		19,943,316
Improvements other than buildings	1,793,832	146,167		1,939,999
Equipment	2,402,567	205,700	\$ (620,815)	1,987,452
Library books	1,734,677	89,429	(18,415)	1,805,691
Total capital assets being depreciated	25,843,367	472,321	(639,230)	25,676,458

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Less accumulated depreciation for:				
Buildings and improvements	6,201,974	633,069		6,835,043
Improvements other than buildings	1,175,310	83,825		1,259,135
Equipment	1,947,382	169,432	(620,815)	1,495,999
Library books	1,430,575	58,188	(18,415)	1,470,348
Total accumulated depreciation	<u>10,755,241</u>	<u>944,514</u>	<u>(639,230)</u>	<u>11,060,525</u>
Total capital assets being depreciated, net	<u>15,088,126</u>	<u>(472,193)</u>	<u>-</u>	<u>14,615,933</u>
Capital assets, net	<u>\$ 15,726,224</u>	<u>\$ 280,884</u>	<u>\$ -</u>	<u>\$ 16,007,108</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, 2004.

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>	<u>Due within one year</u>
Compensated absences payable	\$ 289,088	\$ 116,266	\$ 143,325	\$ 262,029	\$ 14,008
Deferred contract payments	\$ 83,400	\$ 233,200		\$ 316,600	\$ 82,700
Revenue bonds payable	\$ 3,150,000			\$ 3,150,000	
Pledged revenue obligations	8,830,000		\$ 305,000	8,525,000	\$ 320,000
Capital leases payable	297,333	\$ 68,484	215,438	150,379	81,948
Total long-term debt	<u>\$ 12,277,333</u>	<u>\$ 68,484</u>	<u>\$ 520,438</u>	<u>\$ 11,825,379</u>	<u>\$ 401,948</u>

See Note 8 for explanation of deferred contract payments at June 30, 2004.

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, 2004, were as follows:

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

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

The following schedule details debt service requirements to maturity for the District's revenue bonds payable at June 30, 2004.

Year ending June 30,	<u>Principal</u>	<u>Interest</u>
2005		\$ 189,000
2006		189,000
2007		189,000
2008		189,000
2009		189,000
2010-14		945,000
2015-19	\$ 2,445,000	735,600
2020	705,000	42,600
Total	<u>\$ 3,150,000</u>	<u>\$ 2,668,200</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 11 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, 2004, 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	4,175,000

The following schedule details debt service requirements to maturity for the District's pledged revenue obligations at June 30, 2004.

Year ending June 30,	<u>Series 2000</u>		<u>Series 2001</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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		239,250	350,000	143,195
2010-14	\$ 3,530,000	830,225	2,010,000	457,212
2015	820,000	45,100	470,000	22,793
Total	<u>\$ 4,350,000</u>	<u>\$ 2,071,575</u>	<u>\$ 4,175,000</u>	<u>\$ 1,354,765</u>

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

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 on the old certificates of participation. 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, 2004, the balance of \$218,900 was considered defeased.

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 \$73,926 of such assets are capitalized at June 30, 2004.

Equipment	\$ 73,926
Less: accumulated depreciation	7,393
Carrying value	<u>\$ 66,533</u>

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2004.

Year ending June 30,	
2005	\$ 90,434
2006	54,715
2007	<u>17,791</u>
Total minimum lease payments	162,940
Less amount representing interest	<u>12,561</u>
Present value of net minimum lease payments	<u>\$ 150,379</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.

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

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 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 \$101,382 for the year ended June 30, 2004. The operating leases have remaining noncancelable terms of from one to five years. The future minimum payments required under the operating leases at June 30, 2004, were as follows:

Year ending June 30,	
2005	\$ 85,076
2006	52,683
2007	24,076
2008	8,709
Total minimum lease payments	\$ 170,544

Note 7 - 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

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

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, 2004, 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, 2004, 2003, and 2002, were \$449,670, \$228,787 and \$224,598, 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, 2004:

Year ending June 30,	
2005	\$ 1,623,135
2006	1,623,056
2007	1,623,057
2008	1,623,057
2009	1,559,357
2010	772,229
Total	<u><u>\$ 8,823,891</u></u>

The amounts listed above will be expensed in future years when the services are performed. The amount of \$1,199,486 was recorded as an expense in the current year for services performed during the year ended June 30, 2004. Of this amount, \$233,200 is included in the \$316,600 reported as a liability for deferred contract payments at June 30, 2004.

At June 30, 2004, the construction contract between the District and the contractor for the Legacy Foundation Allied Health Sciences building totaled \$905,466. Of this

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

amount, \$609,608 represented completed work, of which, \$319,687 was due and payable.

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. The operating expenses can also be classified into the following:

Personal services	\$ 12,515,924
Contract services	2,474,967
Supplies and other services	1,913,344
Communications and utilities	909,273
Scholarships	1,942,755
Depreciation	944,514
Other	388,161
Total	<u>\$ 21,088,938</u>

Note 10 – Subsequent Events

The District completed construction and furnishing of the Legacy Foundation Allied Health Sciences building in August, 2004 in time to begin the Fall 2004 semester. The building houses health sciences programs, including a new dental hygiene program and expansion of the existing nursing program, at the District's Bullhead City campus.

Note 11 – Discretely Presented Component Unit Disclosure

A. Nature of Activities and Summary of Significant Accounting Policies

General - Mohave 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.

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

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.

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

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 for purposes of this note and the statement of cash flows.

At June 30, 2004, the carrying amount of the Foundation's deposits was \$473,269 and the bank balance was \$474,561. Of the bank balance, \$153,072 was covered by federal depository insurance.

At June 30, 2004, \$33,553 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, 2004. Investments in unimproved real estate are valued at fair market value at the time of

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

donation. The investment in Riverfront Property, LP is valued based on the subsequent sale of the partnership interest.

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

Securities	\$ 1,538,033
Notes receivable	274,366
Unimproved real estate	97,060
Riverfront Property LP	<u>137,393</u>
Total	<u><u>\$ 2,046,852</u></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 figuring 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 the year of contribution. Assets under split-interest agreements included in the Statement of Net Assets total \$411,633.

Year Ending June 30,	Total
2005	\$ 20,992
2006	20,992
2007	20,992
2008	20,992
2009	20,992
2010-2014	<u>51,446</u>
Total annuities payable	<u><u>\$ 156,406</u></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.

Mohave County Community College District
Notes to Financial Statements
June 30, 2004

Charitable remainder trusts	\$ 255,227
Scholarships	<u>138,290</u>
Total temporarily restricted net assets	<u>\$ 393,517</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, 2004 were \$56,795 and \$42,789, respectively.

Supplementary Information

Mohave County Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of the Interior Fish and Wildlife Management Assistance	15.608		\$ 3,128
U.S. Small Business Administration Passed through the Maricopa County Community College District Small Business Development Center	59.037	3-603001-Z-0003-11 4-603001-Z-0003-12	54,622
U.S. Department of Education Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		107,793
Federal Work-Study Program	84.033		56,141
Federal Perkins Loan Program--Federal Capital Contributions	84.038		25,693
Federal Pell Grant Program	84.063		1,866,078
Total Student Financial Assistance Cluster			<u>2,055,705</u>
Passed through the Arizona Department of Education			
Adult Education—State Grant Program	84.002	04FAEABE-470556-01A	164,375
Tech-Prep Education	84.243	03FCTDTP-370556-03A 04FTCDTP-470556-02A 04FCTDTP-470556-05A	141,835
Vocational Education—Basic Grants to States	84.048	03FCTDBG-370556-04A 04FCTDBG-470556-04A	146,506
Passed through the Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	011864	14,642
Total U.S. Department of Education			<u>2,523,063</u>
Total Expenditures of Federal Awards			<u>\$ 2,580,813</u>

See accompanying notes to schedule.

Mohave County Community College District
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

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 2004 *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 \$25,693 in loan balances outstanding at June 30, 2004.

Note 4 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2004.

MILLER, ALLEN & CO., P.C.

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**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, 2004, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 21, 2005. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 39 and 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 auditor 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.

Miller, Allen & Co., P.C.

April 21, 2005

MILLER, ALLEN & CO., P.C.

Certified Public Accountants

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**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, 2004. 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, 2004.

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.

Miller, Allen & Co., P.C.

April 21, 2005

**Mohave County Community College District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004**

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