

Mohave County Community College District

Single Audit Reporting Package

Year Ended June 30, 2006

Mohave County Community College District
Single Audit Reporting Package
Year Ended June 30, 2006

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(1931 - 1992)

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, 2006, 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, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 3 through 11 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 August 6, 2007 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.

Miller, Allen & Co., P.C.

August 6, 2007

Management's Discussion and Analysis

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2006. 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 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, 2006. 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, 2006. 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, 2006. 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.

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2006

Although the primary focus of this document is on the results of activity for fiscal year 2006, comparative data is presented for the previous fiscal year 2005. This Management's Discussion and Analysis (MD&A) uses the prior fiscal year as a reference point in illustrating issues and trends for determining whether the institution's financial health may have improved or deteriorated.

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

Statement of Net Assets	As of June 30, 2006	As of June 30, 2005
Current assets	\$ 6,391,228	\$ 5,295,858
Noncurrent assets, other than capital assets	194,498	213,515
Capital assets, net	17,719,293	16,147,449
Total assets	24,305,019	21,656,822
Long-term liabilities	13,716,386	12,115,202
Other liabilities	1,342,810	1,110,145
Total liabilities	15,059,196	13,225,347
Net assets:		
Invested in capital assets, net of related debt	4,971,770	4,478,623
Restricted net assets	585,244	967,148
Unrestricted net assets	3,688,809	2,985,704
Total net assets	\$ 9,245,823	\$ 8,431,475

The District's fiscal year 2006 financial position showed a moderate improvement, 9.7 percent stronger than fiscal year 2005, resulting from moderate increases in all areas of operation and construction of a new classroom building and the undertaking of a major upgrade to the administrative computing system software.

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2006

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 \$3,054,475 are included in operating revenues. In compliance with pronouncements issued by GASB, scholarship allowances are reported as deductions from tuition and fees revenues instead of as scholarship expense. The construction and acquisition of capital assets, although budgeted and recorded as an expense in the accounting system, is not reported as an expense in these statements. Such transactions are instead capitalized and reported as assets – with the systematic allocation of such costs (depreciation) expensed over the useful lives of the assets constructed or acquired. The District shows an operating loss reflecting that two of the largest revenue sources, property taxes and state appropriations, are considered nonoperating revenues. For a description of the differences between operating and nonoperating, please refer to the Summary of Significant Accounting Policies (Note 1), which directly follows the presentation of the financial statements.

Statement of Revenues, Expenses, and Changes in Net Assets	For the Year Ended June 30, 2006	For the Year Ended June 30, 2005
Operating revenues	\$ 9,862,453	\$ 8,854,601
Operating expenses:		
Educational and general	25,175,019	22,745,536
Auxiliary enterprises	228,419	190,639
Depreciation	1,087,742	996,621
Other	23,003	160
Total operating expenses	<u>26,514,183</u>	<u>23,932,956</u>
Operating loss	(16,651,730)	(15,078,355)
Nonoperating revenues	17,651,920	15,981,265
Nonoperating expenses	<u>(798,623)</u>	<u>(689,556)</u>
Income (loss) before other revenues, expenses, gains, or losses	201,567	213,354
Other revenues, expenses, gains, or losses:		
Contributions	<u>612,781</u>	<u>1,088,226</u>
Increase in net assets	814,348	1,301,580
Net assets, beginning of year	<u>8,431,475</u>	<u>7,129,895</u>
Net assets, end of year	<u><u>\$ 9,245,823</u></u>	<u><u>\$ 8,431,475</u></u>

Operating revenues, which increased 11.4 percent, were impacted most by a \$782,019 or 15.1 percent increase in government grants and contracts, mainly PELL financial aid which accounted for 93 percent of the dollar increase, and a \$180,204 or 6.4 percent increase in net

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2006

tuition and fees. Tuition and fees increased \$763,761 or 14.5 percent if reported at gross rather than net of scholarship allowances. Although full-time equivalent students remained steady, the \$4 per credit hour tuition increase provided in the District's five-year plan and annual revision of fees proved beneficial. Private grants decreased 13.1 percent or \$45,304 because administrative procedures changed to have private donations processed through the Mohave Community College Foundation, Inc. with the Foundation forwarding donations to the District when appropriate. Although all other operating revenues increased \$71,693 or 18.5 percent, food service income had the greatest percent increase at 39.1 percent and other sales and services increased 21.7 percent because of increased use of the Dental Hygiene Clinic, which provided an on-site, supervised student practicum and reporting College for Kids, an auxiliary non-credit activity, as other operating revenues rather than tuition and fees. Operating expenses rose 10.8 percent mainly as a result of 16.9 percent greater personnel costs of \$2,215,277 resulting from annual increases of about 5 percent for continuing personnel, a 29.8 percent increase in the Arizona State retirement contribution rate from 5.7 percent to 7.4 percent of salaries and wages, 9 new professional/support positions, and a 535.4 percent increase in compensated absences expense as a result of changing from paid sick leave, vacation and personal time allowances to a paid time off plan that also includes full-time faculty. Auxiliary enterprise expenses showed an increase of 19.8 percent as a result of increased costs for the North Mohave Campus bookstore operation and moving about \$30,000 of expenses for College for Kids from instruction to auxiliary to match the move for revenues. A 35.2% increase in public service education and general operating expenses were incurred for the Small Business Development Center, including new personnel and furnishing offices in a campus facility better serving the program.

Nonoperating revenues increased 10.5 percent as all categories except state appropriations had significant increases, which are discussed in the Financial Highlights and Analysis section. Nonoperating expenses--interest on debt--increased 21.2 percent as a result of new financing for construction and capital leases. Financing is further discussed under Long-Term Debt in the Financial Highlights and Analysis section.

Capital appropriations decreased \$1,000 due to a reduction by the state of Arizona and \$474,445 for reduced capital giving as donations went to the Mohave Community College Foundation, Inc. with the Foundation forwarding donations to the District when appropriate, in accordance with changed administrative procedures.

The following schedule presents a summary and comparison of revenues for the fiscal years ended June 30, 2006 and June 30, 2005:

<u>Revenues by Source</u>	<u>Fiscal Year 2006</u>		<u>Fiscal Year 2005</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>Change % of</u>
<u>Operating revenues</u>						
Tuition and fees (net of scholarship allowances)	\$ 2,990,555	10.6	\$ 2,810,351	10.8	\$ 180,204	6.4
Government grants and contracts	5,952,940	21.2	5,170,921	20.0	782,019	15.1
Private grants and contracts	300,912	1.1	346,216	1.3	(45,304)	-13.1

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For the Year Ended June 30, 2006

Bookstore income	159,473	0.6	140,233	0.5	19,240	13.7
Other operating revenues	458,573	1.6	386,880	1.5	71,693	18.5
Total operating revenues	<u>9,862,453</u>	<u>35.1</u>	<u>8,854,601</u>	<u>34.1</u>	<u>1,007,852</u>	11.4
<u>Nonoperating revenues</u>						
Property taxes	13,274,304	47.2	11,762,842	45.4	1,511,462	12.8
State appropriations	3,710,000	13.2	3,710,000	14.3	0	0.0
Other	667,616	2.4	508,423	2.0	159,193	31.3
Total nonoperating revenues	<u>17,651,920</u>	<u>62.8</u>	<u>15,981,265</u>	<u>61.7</u>	<u>1,670,655</u>	10.5
Capital appropriations	491,000	1.7	492,000	1.9	(1,000)	-0.2
Capital grants and gifts	121,781	0.4	596,226	2.3	(474,445)	-79.6
Total revenues	<u>\$ 28,127,154</u>	<u>100.0</u>	<u>\$ 25,924,092</u>	<u>100.0</u>	<u>\$ 2,203,062</u>	8.5

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

The following schedule presents a summary and comparison of expenses for the fiscal years ended June 30, 2006 and June 30, 2005:

<u>Expenses by Function</u>	<u>Fiscal Year 2006</u>		<u>Fiscal Year 2005</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Change</u>
<u>Operating expenses</u>						
Education and general:						
Instruction	\$ 6,882,730	25.2	\$ 6,492,051	26.4	\$ 390,679	6.0
Academic support	3,462,743	12.7	2,992,161	12.2	470,582	15.7
Student services	3,315,437	12.1	2,762,592	11.2	552,845	20.0
Institutional support	6,001,049	22.0	5,237,170	21.3	763,879	14.6
Operation and maintenance of plant	2,434,154	8.9	2,435,786	9.9	(1,632)	-0.1
Scholarships	2,954,737	10.8	2,733,955	11.1	220,782	8.1
Public service	124,169	0.5	91,821	0.4	32,348	35.2
Auxiliary enterprises	228,419	0.8	190,639	0.8	37,780	19.8
Other operating expenses	1,110,745	4.1	996,781	4.0	113,964	11.4
Total operating expenses	<u>26,514,183</u>	<u>97.1</u>	<u>23,932,956</u>	<u>97.3</u>	<u>2,581,227</u>	10.8
<u>Nonoperating expenses</u>						
Interest expense on debt	798,623	2.9	658,756	2.6	139,867	21.2
Loss on disposal of capital assets			30,800	0.1	(30,800)	-100.0
Total nonoperating expenses	<u>798,623</u>	<u>2.9</u>	<u>689,556</u>	<u>2.7</u>	<u>109,067</u>	15.8
Total expenses	<u>\$ 27,312,806</u>	<u>100.0</u>	<u>\$ 24,622,512</u>	<u>100.0</u>	<u>\$ 2,690,294</u>	10.9

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

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2006

Financial Highlights and Analysis

The District's financial position at June 30, 2006 was stronger than at June 30, 2005, as management's emphasis on students and student services and cost management efforts continued to have a positive impact. Cash and cash equivalents increased \$1,140,194, the result of several factors. Investment income increased \$49,086, or 54.5%, as larger amounts of reserve cash were held in interest-bearing accounts for longer time periods. The District's share of state sales taxes increased \$99,131, or 23.7 percent, and property taxes revenue increased \$1,511,462, or 12.8 percent; but state appropriations remained the same as for fiscal year 2005.

Collections of receivables also contributed to the improved cash position.

Capital assets not being depreciated (Construction in Progress) increased \$1,732,306 as the District completed 99% of a new classroom building construction project and began a major upgrade to the administrative computing system software. Capital assets being depreciated, net of accumulated depreciation, decreased \$160,462 as the District disposed of automotive and other equipment that no longer provided appropriate service or technology while upgrading fire alarm systems, enhancing improvements other than buildings (landscaping, a student patio, new parking lots and resurfacing, and a science time-line project), and acquiring new equipment, including a new communications system costing in excess of \$375,000.

Current liabilities increased as a result of increased accounts payable, especially for construction in progress, and for accrued payroll, including benefits, for hourly support personnel and summer associate faculty contracts. Long-term liabilities of the District increased \$1,601,184 during the fiscal year ended June 30, 2006. The District borrowed construction funds of \$1,325,000 by issuing a new series of pledged revenue obligations and obtained \$630,346 in new lease purchase financing--\$330,587 for costs incurred by the fiscal year end for the administrative computing system software upgrade and \$299,759 for 300 new computers in the second year of an annual refresh program. Only \$611,336 was paid to reduce long-term debt principal--\$335,000 on pledged revenue obligations and \$276,336 on capital leases.

Net assets increased \$814,348, reflecting the increase in capital assets, net of accumulated depreciation, and an increase in unrestricted net assets as a result of increased revenues in excess of increased expenses.

Operating revenues increased by 11.4 percent from the prior fiscal year. The main component of this increase was a \$782,019, or 15.1 percent, increase in government grants and contracts. Government grants and contracts increased primarily due to a \$727,221 increase in Federal Pell Grant Program awards resulting from a 20 percent increase in applicants receiving aid. Food service income increased 39.1 percent, or \$10,876, and bookstore revenue increased 13.7 percent, or \$19,240. New construction and continued population and business growth in Mohave County increased property tax revenue 12.8 percent, or \$1,511,462. Private grants and contracts and capital grants and gifts declined 13.1 and 79.6 percent, respectively, as contributions were directed through the Mohave Community College Foundation, Inc. and construction was financed with borrowed monies.

Mohave County Community College District
Management's Discussion and Analysis
For the Year Ended June 30, 2006

Total expenses increased 10.9 percent and operating expenses increased 10.8 percent with institutional support, academic support, instruction, and scholarships accounting for 28.4 percent, 17.5 percent, 14.5 percent, and 8.2 percent, respectively, of the \$2,690,294 increase in total expenses. Instruction costs increased \$390,679 or 6 percent, mainly as a result of personnel for a new Leisure Studies Division and resident faculty being included in the new paid time-off plan (please refer to the Summary of Significant Accounting Policies (Note 1-G), which directly follows the presentation of the financial statements). Personnel costs increased \$472,654, or 9.0 percent.

A 15.7 percent increase in academic support costs mainly resulted from a 15.6 percent, or \$422,757, increase in personnel costs and contracted services with a new Leisure Studies Division including a Dean and secretary position. The dollar increase in academic support personnel costs, \$346,402, and contracted services costs, \$76,355, accounted for 89.8 percent of the total increase in academic support costs. Student services' 20.0 percent increase in costs resulted from a 21.0 percent increase in personnel costs, or \$556,701, partially offset by reductions in contract services cost. These increases were the result of new positions and increasing Federal Work Study funding.

Institutional support expense increased 14.6 percent and included a computer refresh of 300 new computers in the student computer labs on all four campuses at a cost of \$299,759 and a \$580,082 increase in personnel costs. Contract services increased \$272,424, or 9.2 percent, with \$150,039 accounted for by automatic consumer price index increases for the outsourced tech support contracted services. Communications and utilities costs increased 4.6 percent, or \$43,414. Operation and maintenance of plant decreased 0.1 percent, or \$1,632, with personnel costs increasing \$221,281, or 30.5 percent and capital expenses decreasing 92.5 percent, or \$333,524.

Scholarships increased \$220,782, or 8.1 percent, as student financial aid continued to be provided to as many students as possible. Auxiliary enterprises expenses increased 19.8 percent, or \$37,780. Interest expense on debt increased 21.2 percent, or \$139,867, as a result of additional capital lease obligations for the computer refresh and the issuance of new pledged revenue obligations of \$1,325,000 with associated costs of \$105,368.

Capital Assets

The major addition to capital assets not being depreciated was \$1,732,306 construction in progress for a new classroom building and a major upgrade to the administrative computing system software. The classroom building was completed in August 2006 before the beginning of fall classes; the software upgrade is not expected to be completed until January 2008. Capital assets being depreciated had a net decrease of \$160,462, mainly comprised of a \$96,721 net increase for the cost of new items in excess of the cost of items disposed, offset by a \$257,183 decrease because depreciation for newer assets placed in service exceeded accumulated depreciation for those assets disposed.

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Management's Discussion and Analysis
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Long-Term Debt

At June 30, 2006, the District had \$13,008,343 of long-term debt outstanding, including revenue bonds of \$3,150,000; pledged revenue obligations of \$9,195,000, including \$1,325,000 of new obligations; and six capital leases of \$663,343, including \$509,777 for 300 new computers and a major administrative software upgrade in process. During fiscal year 2006, principal reductions on pledged revenue obligations and capital leases totaled \$335,000 and \$276,336, 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 2006, economic conditions in Mohave County continued to improve as new businesses and industry provided additional revenues and jobs. New businesses are opening and construction of new residences continues in all areas of the county. Major progress continues to be made in the highway improvement project to divide Highway 93 into four-lanes and to bypass Hoover Dam. College enrollment for fiscal 2006 declined one percent; however, fiscal year 2007 sees continuing growth with FTSE up 100 students. The fall semester increase is significant because the District restructured non-transferable credit courses into a Leisure Studies Division with flexible schedules and no credit hours, thereby, relinquishing state-aid payments for FTSE that would have been payable to the District if the previous credit structure had continued.

The District's five-year tuition plan increased fiscal year 2006 tuition to \$46 per credit hour and increased fiscal year 2007 tuition to \$50 per credit hour. Fall semester, fiscal year 2007 tuition is up 22.3 percent over fall semester for fiscal year 2006. Various student fees continue to be monitored to better match costs to types of classes and labs and distance education enrollment continues to grow. Fees for fall 2006 are up 76.9 percent over fall 2005 including Leisure Studies and up 58.6 percent without Leisure Studies courses included in fall 2006. Spring 2007 semester tuition and fees are also up, approximately 17.2 percent for tuition and 54.7 percent for fees, when compared to the spring 2006 semester. The automotive service technician program is in its second year in fiscal 2007 and an automotive collision program was begun in fiscal 2007.

MCC continued its three-year computer refresh program by furnishing the student computer labs with 300 new computers for the third year. The previous year's computers are distributed to faculty, staff, the library, and other areas of the campuses. The District completed construction of a new classroom/laboratory building on the Bullhead City Campus in time for Fall Semester, 2007.

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

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Management's Discussion and Analysis
For the Year Ended June 30, 2006**

requests for additional financial information should be addressed to the Internal Audit Office, Mohave Community College, 1971 Jagerson Ave., Kingman, AZ 86409-1238.

Mohave County Community College District
Statement of Net Assets - Primary Government
June 30, 2006

	Business-Type Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 5,210,686
Receivables:	
Accounts	49,309
Property taxes (net of allowances of \$221,533)	466,826
Government grants and contracts	139,877
Donors, including \$51,230 from component unit	76,230
Student receivables (net of allowances of \$1,567)	171,422
Student loans (net of allowances of \$400)	29,252
Interest	36,855
Other	3,950
Inventories	10,584
Prepaid items	196,237
Total current assets	6,391,228
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	143,408
Cash and investments held by trustee	51,090
Capital assets, not being depreciated	2,370,404
Capital assets, being depreciated, net	15,348,889
Total noncurrent assets	17,913,791
Total assets	\$ 24,305,019

(Continued)

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Net Assets - Primary Government
June 30, 2006
(Continued)

	Business-Type Activities
Liabilities	
Current liabilities:	
Accounts payable	\$ 392,194
Accrued payroll and employee benefits	595,084
Interest payable	218,767
Deferred revenues	5,243
Deposits held in custody for others	131,522
Current portion of compensated absences payable	38,973
Current portion of deferred contract payments	81,009
Current portion of long-term debt	789,527
Total current liabilities	2,252,319
Noncurrent liabilities:	
Compensated absences payable	483,001
Deferred contract payments	105,060
Long-term debt	12,218,816
Total noncurrent liabilities	12,806,877
Total liabilities	15,059,196
Net Assets	
Invested in capital assets, net of related debt	4,971,770
Restricted:	
Nonexpendable – student loans	47,923
Expendable:	
Grants and contracts	194,122
Debt service	50,783
Capital projects	292,416
Unrestricted	3,688,809
Total net assets	\$ 9,245,823

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Net Assets – Component Unit
June 30, 2006

Mohave Community
College Foundation, Inc.

Assets

Cash and cash equivalents	\$ 250,972
Investments	1,747,506
Capital assets, net	20,426
Restricted cash and cash equivalents	112,257
Total assets	<u>2,131,161</u>

Liabilities

Amounts payable to college	51,230
Accounts payable	2,587
Current portion of charitable annuities payable	21,046
Charitable annuities payable, net of current portion	93,267
Total liabilities	<u>168,130</u>

Net Assets

Unrestricted	774,857
Temporarily restricted	583,754
Permanently restricted	604,420
Total net assets	<u>\$ 1,963,031</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, 2006

	<u>Business-Type Activities</u>
Operating revenues:	
Tuition and fees (pledged as security for revenue obligations and bonds and net of scholarship allowances of \$3,054,475)	\$ 2,990,555
Government grants and contracts	5,952,940
Private grants and contracts	300,912
Bookstore income (pledged as security for revenue obligations and bonds)	159,473
Food service income (pledged as security for revenue obligations and bonds)	38,668
Other sales and services (pledged as security for revenue obligations and bonds)	339,052
Other	80,853
Total operating revenues	<u>9,862,453</u>
Operating expenses:	
Educational and general:	
Instruction	6,882,730
Public service	124,169
Academic support	3,462,743
Student services	3,315,437
Institutional support	6,001,049
Operation and maintenance of plant	2,434,154
Scholarships	2,954,737
Auxiliary enterprises	228,419
Depreciation	1,087,742
Other	23,003
Total operating expenses	<u>26,514,183</u>
Operating loss	<u>(16,651,730)</u>
Nonoperating revenues (expenses):	
Property taxes	13,274,304
State appropriations	3,710,000
Share of state sales taxes	517,428
Investment earnings, net of investment expense	139,212
Interest expense on debt	(798,623)
Gain on disposal of capital assets	10,976
Total nonoperating revenues (expenses)	<u>16,853,297</u>
Income before other revenues, expenses, gains, or losses	201,567
Capital appropriations	491,000
Capital grants and gifts	121,781
Increase in net assets	814,348
Total net assets, July 1, 2005	<u>8,431,475</u>
Total net assets, June 30, 2006	<u>\$ 9,245,823</u>

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Activities – Component Unit
Year Ended June 30, 2006

	Mohave Community College Foundation, Inc.			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Contributions and dues	\$ 33,784	\$ 52,389	\$ -	\$ 86,173
Interest/dividend income	28,389	42,085	-	70,474
Net realized/unrealized gains on investments	53,129	50,524	-	103,653
Special events	36,597	-	-	36,597
Donations in-kind	43,854	-	-	43,854
Other income	1,117	-	-	1,117
Net assets released from restrictions:				
Satisfaction of program restrictions	84,447	(84,447)	-	-
Total revenues, gains, and other support	281,317	60,551	-	341,868
Expenses and losses:				
Accounting	13,755	-	-	13,755
Advertising	95	-	-	95
Auto/travel	2,345	-	-	2,345
Miscellaneous	29,772	-	-	29,772
Fund-raising	33,556	-	-	33,556
Wages and benefits	40,183	-	-	40,183
Property taxes	1,026	-	-	1,026
Payments to/for college	224,937	-	-	224,937
Distributions to beneficiaries of life income and life estates	25,568	-	-	25,568
Depreciation	5,442	-	-	5,442
Total expenses and losses	376,679	-	-	376,679
Change in net assets	(95,362)	60,551	-	(34,811)
Net assets at beginning of year	870,219	523,203	604,420	1,997,842
Net assets at end of year	\$ 774,857	\$ 583,754	\$ 604,420	\$ 1,963,031

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Cash Flows—Primary Government
Year Ended June 30, 2006

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	\$ 2,989,605
Grants and contracts	6,302,051
Bookstore receipts	168,430
Food service receipts	39,085
Sales and services	340,157
Collection of loans to students	1,403
Other receipts	80,853
Payments to suppliers and providers of goods and services	(7,228,363)
Payments to employees	(14,940,787)
Payments for scholarships	(2,878,771)
Net cash used for operating activities	(15,126,337)
Cash flows from noncapital financing activities:	
Property taxes	13,251,980
State appropriations	3,710,000
Share of state sales taxes	517,428
Deposits held in custody for others received	341,794
Deposits held in custody for others disbursed	(336,156)
Net cash provided by noncapital financing activities	17,485,046
Cash flows from capital and related financing activities:	
Proceeds from capital lease	299,759
Capital appropriations	491,000
Proceeds from issuance of capital debt	1,325,000
Capital grants and gifts	120,216
Proceeds from sale of capital assets	67,383
Principal paid on capital debt	(611,336)
Interest paid on capital debt	(787,699)
Payments made to contractors	(1,460,093)
Purchases of capital assets	(784,505)
Net cash used for capital and related financing activities	(1,340,275)
Cash flows from investing activities:	
Interest received on investments, net	121,760
Net cash provided by investing activities	121,760
Net increase in cash and cash equivalents	1,140,194
Cash and cash equivalents, July 1, 2005	4,264,990
Cash and cash equivalents, June 30, 2006	\$ 5,405,184

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Cash Flows—Primary Government
Year Ended June 30, 2006
(Continued)

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (16,651,730)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,087,742
Changes in assets and liabilities:	
Increase in:	
Donor receivables	(1,542)
Student receivables, net	(43,665)
Prepaid items	(24,641)
Accounts payable	8,862
Accrued payroll and employee benefits	109,530
Compensated absences payable	337,751
Decrease in:	
Accounts receivable	81,478
Government grants and contracts receivable	71,485
Student loans receivable, net	771
Other receivables	3,759
Inventories	624
Deferred revenues	(26,183)
Deferred contract payments	(80,578)
Net cash used for operating activities	\$ (15,126,337)
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and cash equivalents	\$ 5,210,686
Restricted assets:	
Cash and cash equivalents	143,408
Cash and investments held by trustee	51,090
Total cash and cash equivalents, June 30, 2006	\$ 5,405,184
Noncash investing, capital, and noncapital financing activities:	
Capital assets acquired by donor's direct payments to vendor	\$ 31,098
Capital assets acquired by capital lease	330,588
Purchases of capital assets included in accounts payable	150,183

See accompanying notes to financial statements.

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

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).

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 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, 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. 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. The Foundation has a June 30 year end.

During the year ended June 30, 2006, the Foundation distributed \$224,937 to the District for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Mohave Community College Foundation, Inc., 1971 Jagerson Avenue, Kingman, Arizona 86409-1238.

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

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 presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized 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

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

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:

<u>Asset Category</u>	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful life</u>
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 Earnings

Investment earnings are 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, 2006

G. Compensated Absences

Compensated absences consist of Paid Time Off (PTO) based on services already rendered and a calculated amount of sick leave earned by employees prior to July 1, 2005.

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

PTO provides time off to cover vacation, sick leave if an employee has no Sick Leave Reserve and personal/emergency leave. All regular fulltime, benefits-eligible, non-temporary employees, including resident faculty scheduled to work less than twelve months annually, are eligible to accrue PTO leave credit. Maximum hours accruable are 288 hours for administrators and 160 hours for resident faculty. Professional and support staff earn hours based on years of completed service as follows: 0 – 4 years accrue 192 hours, 5 – 9 years accrue 232 hours, 10 – 14 years accrue 272 hours and 15+ years accrue 312 hours. At any point in time, the balance is limited to one and one-half times the annual accrual hours.

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

H. Scholarship Allowances

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

Note 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) requires the District to deposit special tax levies for the District's maintenance or capital outlay with the County Treasurer. The

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

statutes do not require the District to deposit other public monies in its custody with the County Treasurer; however, the District must act as a prudent person dealing with the property of another when making investment decisions about those monies. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District's investments.

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

Deposits — At June 30, 2006, the carrying amount of the District's deposits was \$706,114, and the bank balance was \$949,502.

Investments — The District's investments at June 30, 2006, were as follows:

<u>Investment Type</u>	<u>Amount</u>
County Treasurer's investment pool	\$ 4,643,213
Money Market Mutual Fund	51,090
	<u>\$ 4,694,303</u>

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

Credit risk — At June 30, 2006, credit risk for the District's investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
County Treasurer's investment pool	Unrated	Not applicable	\$ 4,643,213
Money Market Mutual Fund	Unrated	Not applicable	51,090
			<u>\$ 4,694,303</u>

Custodial credit risk — For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2006, the District had \$51,090 of investments in a money market mutual fund that was uninsured and held by the counterparty not in the District's name.

Interest rate risk— At June 30, 2006, the District had the following investments in debt securities:

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

<u>Investment Type</u>	Investment Maturities		
	Amount	Less than 1 Year	1-5 Years
County Treasurer's investment pool	\$ 4,643,213	\$ -	\$ 4,643,213
Money Market Mutual Fund	51,090	51,090	-
	<u>\$ 4,694,303</u>	<u>\$ 51,090</u>	<u>\$ 4,643,213</u>

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

Cash, deposits, and investments:		Statement of Net Assets:	
Cash on hand	\$ 4,767	Cash and cash equivalents	\$ 5,210,686
Amount of deposits	706,114	Restricted assets:	
Amount of investments	4,694,303	Cash and cash equivalents	143,408
		Cash and investments held by trustee	51,090
Total	<u>\$ 5,405,184</u>	Total	<u>\$ 5,405,184</u>

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 638,098	\$ -	\$ -	\$ 638,098
Construction in progress (estimated cost to complete \$15,885)		1,732,306		1,732,306
Total capital assets not being depreciated	<u>638,098</u>	<u>1,732,306</u>	<u>-</u>	<u>2,370,404</u>
Capital assets being depreciated:				
Buildings and improvements	21,156,814	126,710	10,148	21,273,376
Improvements other than buildings	2,102,790	173,854	-	2,276,644
Equipment	2,332,354	622,163	793,925	2,160,592
Library books	1,859,188	43,789	65,722	1,837,255
Total capital assets being depreciated	<u>27,451,146</u>	<u>966,516</u>	<u>869,795</u>	<u>27,547,867</u>
Less accumulated depreciation for:				
Buildings and improvements	7,452,170	654,454	10,148	8,096,476
Improvements other than buildings	1,343,317	106,582	-	1,449,899
Equipment	1,642,454	263,943	754,690	1,151,707
Library books	1,503,854	62,764	65,722	1,500,896
Total accumulated depreciation	<u>11,941,795</u>	<u>1,087,743</u>	<u>830,560</u>	<u>12,198,978</u>
Total capital assets being depreciated, net	<u>15,509,351</u>	<u>(121,227)</u>	<u>39,235</u>	<u>15,348,889</u>
Capital assets, net	<u>\$ 16,147,449</u>	<u>\$ 1,611,079</u>	<u>\$ 39,235</u>	<u>\$ 17,719,293</u>

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

Note 4 - Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2006.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due within one year</u>
Compensated absences payable	\$ 184,223	\$ 368,759	\$ 31,008	\$ 521,974	\$ 38,973
Deferred contract payments	\$ 266,647	\$ -	\$ 80,578	\$ 186,069	\$ 81,009
Revenue bonds payable	\$ 3,150,000			\$ 3,150,000	
Pledged revenue obligations	8,205,000	\$ 1,325,000	\$ 335,000	9,195,000	\$ 420,000
Capital leases payable	309,332	630,347	276,336	663,343	369,527
Total long-term debt	<u>\$ 11,664,332</u>	<u>\$ 1,955,347</u>	<u>\$ 611,336</u>	<u>\$ 13,008,343</u>	<u>\$ 789,527</u>

See Note 8 for explanation of deferred contract payments at June 30, 2006.

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, 2006, 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

The following schedule details debt service requirements to maturity for the District's revenue bonds payable at June 30, 2006.

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007		\$ 189,000
2008		189,000
2009		189,000
2010		189,000
2011		189,000
2012-16	\$ 560,000	945,000
2017-20	2,590,000	399,900
Total	<u>\$ 3,150,000</u>	<u>\$ 2,289,900</u>

Pledged revenue obligations - The District's pledged revenue obligations debt consists of obligations issued under the terms of agreements with the trustee. The

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

obligations are payable solely from lease payments pursuant to lease purchase agreements and mature in 1 to 15 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. Proceeds of the Series 2005 Pledged Revenue Obligations, issued during fiscal year 2005-2006 in the amount of \$1,325,000, were used to: (i) design, construct, furnish and equip a classroom building, (ii) pay the premium of \$22,174 for a municipal bond insurance policy for the Series 2005 Obligations and (iii) pay all legal, financial and other costs of \$83,194 relating to the execution and delivery of the Series 2005 Obligations. All Pledged Revenue Obligations are secured by revenues from tuition and fees, bookstore operations, food service sales or commissions and facility rentals.

Pledged revenue obligations outstanding at June 30, 2006, 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	4,630,000	2006-2015	3.75-5.25	3,520,000
Series 2005	1,325,000	2007-2021	3.5-4.125	1,325,000

The following schedule details debt service requirements to maturity for the District's pledged revenue obligations at June 30, 2006.

	Series 2000		Series 2001		Series 2005	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30,						
2007		\$ 239,250	\$ 350,000	\$ 175,510	\$ 70,000	\$ 49,276
2008		239,250	340,000	157,135	70,000	46,826
2009		239,250	350,000	143,195	70,000	44,376
2010	\$ 630,000	239,250	365,000	128,320	75,000	41,839
2011	665,000	204,600	380,000	112,443	80,000	39,126
2012-2016	3,055,000	431,475	1,735,000	239,244	435,000	150,212
2017-2021					525,000	56,204
Total	<u>\$ 4,350,000</u>	<u>\$ 1,593,075</u>	<u>\$ 3,520,000</u>	<u>\$ 955,847</u>	<u>\$ 1,325,000</u>	<u>\$ 427,859</u>

Capital leases - The District has acquired equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because the agreements provide for a bargain purchase option or a transfer of ownership by the end of the lease term. However, only \$475,091 of such assets met the District's capitalization threshold and are capitalized at June 30, 2006.

Equipment	\$ 475,091
Less: accumulated depreciation	<u>58,136</u>
Carrying value	<u>\$ 416,955</u>

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2006.

Year ending June 30,	
2007	\$ 418,639
2008	250,376
2009	81,230
2010	<u>11,985</u>
Total minimum lease payments	762,230
Less amount representing interest	<u>98,887</u>
Present value of net minimum lease payments	<u>\$ 663,343</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 and accidental death and dismemberment for students. 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.

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

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 \$142,257 for the year ended June 30, 2006. The operating leases have remaining noncancelable terms of from one to five and one-half years. The future minimum payments required under the operating leases at June 30, 2006, were as follows:

Year ending June 30,	
2007	\$ 93,290
2008	87,868
2009	37,537
2010	3,315
2011	498
Total minimum lease payments	\$ 222,508

Note 7 - Retirement Plan

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

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

Funding policy - The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2006, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 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, 2006, 2005, and 2004, were \$678,713, \$461,265, and \$449,670, 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

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

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, 2006:

Year ending June 30,	
2007	\$ 1,675,711
2008	1,675,711
2009	1,612,011
2010	798,485
Total	<u>\$ 5,761,918</u>

The amounts listed above will be expensed in future years when the services are performed. Of the amount of \$1,649,384 paid during the fiscal year, \$1,574,984 was recorded as an expense in the current year for services performed during the year ended June 30, 2006 and \$74,400 was applied to reduce the liability for deferred contract payments at June 30, 2006.

In September 2006 the District amended the original agreement detailed above to be effective January 1, 2007. The amendment is to provide additional services relative to the District's new or updated General Course Management System, Administrative System, and Library Services System. The amendment will require additional costs totaling \$494,390 over the remaining four years of the agreement.

Note 9 - Operating Expenses

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

Personal services	\$ 15,317,595
Contract services	3,247,471
Supplies and other services	2,545,080
Communications and utilities	978,466
Scholarships	2,954,737
Depreciation	1,087,742
Other	383,092
Total	<u>\$ 26,514,183</u>

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

Note 10 – Subsequent Events

The District completed construction of a new classroom building on the Bullhead City Campus in fiscal year 2007 at a total cost of construction of \$1,387,865 financed with Pledged Revenue Obligations Series 2005 issued on October 1, 2005 (refer to Note 4 Long-Term Liabilities).

The District also contracted to upgrade the administrative computing system. Costs incurred in fiscal year 2006 were \$344,441 including software licensing costs of \$330,588. Costs of additional software to administer student financial aid, converting existing system data to the upgraded system, configuration assistance, conversion mapping, implementation, project management including travel, and training are expected to bring the total cost of the upgrade to \$737,050. The expected “go-live” date is the first week of January 2008. Costs of \$668,188 are being financed with tax exempt lease/purchase bank financing payable quarterly over a five-year period beginning July 2006.

In December 2006 the District issued \$3,490,000 of Revenue Refunding Bonds Series 2006 to advance refund \$3,150,000 of Revenue Bonds Series 2000 and to pay all legal, financial and other costs related to the issuance of the Series 2006 Bonds. The Bonds are limited obligations of the District payable solely from a pledge of, and secured by a lien on, the gross revenues of the District.

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.

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

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

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

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

At June 30, 2006, the carrying amount of the Foundation's deposits was \$363,229 and the bank balance was \$375,863. Of the bank balance, \$130,895 was covered by federal depository insurance.

At June 30, 2006, \$112,257 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, 2006. Investments in unimproved real estate are valued at fair market value at the time of donation.

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

Mohave County Community College District
Notes to Financial Statements
June 30, 2006

Securities	\$ 1,614,888
Notes receivable	43,453
Unimproved real estate	<u>89,165</u>
Total	<u>\$ 1,747,506</u>

D. Split Interest Agreements - Charitable Trusts

The Foundation has entered into charitable gift annuity agreements wherein donors (the Annuitants) conveyed to the Foundation, assets in exchange for annual payments to the annuitants during their lifetimes, or for a term of years. The liability is calculated at the date of donation by calculating the present value of the annual payments over the expected remaining life of the annuitants or term of years, whichever is greater. Contributions revenue, which is the fair market value of the contribution less its corresponding liability, is included in the statement of activities in the year of contribution. Assets under split-interest agreements included in the Statement of Net Assets total \$392,596.

Year Ending June 30,	Total
<u>2007</u>	<u>\$ 21,046</u>
2008	21,046
2009	21,046
2010	21,046
2011	21,046
2012	<u>9,083</u>
Total annuities payable	<u>\$ 114,313</u>

E. Temporarily Restricted Net Assets

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

Charitable remainder trusts	\$ 258,283
Scholarships	<u>325,471</u>
Total temporarily restricted net assets	<u>\$ 583,754</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, 2006 were \$36,597 and \$33,556, respectively.

Supplementary Information

Mohave County Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<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 Bureau of Land Management	15.unknown		\$ 4,303
U.S. Institute of Museum and Library Services, National Foundation on the Arts and Humanities Passed through Arizona State Library, Archives and Public Records			
Grants to States - Cultural Diversity Series	45.310	251-04-01-(07)	3,670
Grants to States - Kingman Area Books Are Magic	45.310	251-05-01-(14)	4,945
Total Office of Library Services, U.S. Institute of Museum and Library Services, Natural Foundation on the Arts and the Humanities			<u>8,615</u>
U.S. National Science Foundation Geosciences	47.050		<u>9,030</u>
U.S. Small Business Administration Passed through the Maricopa County Community College District Small Business Development Center	59.037	5-603001-Z-0003-13, 6-603001-Z-0003-14	<u>55,956</u>
U.S. Department of Education Passed through the Arizona Commission for Postsecondary Education Leveraging Educational Assistance Partnership	84.069	011864	<u>13,222</u>
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		54,612
Federal Work-Study Program	84.033		63,359
Federal Perkins Loan Program--Federal Capital Contributions	84.038		22,064
Federal Pell Grant Program	84.063		4,997,012
Total Student Financial Assistance Cluster			<u>5,137,047</u>
Passed through the Arizona Department of Education Adult Education—State Grant Program	84.002	06FAEABE-670556-01A	159,250
Tech-Prep Education	84.243	05FCTDTP-570556-03A, 06FCTDTP-670556-03A	123,143
Vocational Education—Basic Grants to States	84.048	05FCTDBG-570556-04A, 06FCTDBG-670556-04A	133,554
Total U.S. Department of Education			<u>5,566,216</u>
Total Expenditures of Federal Awards			<u>\$ 5,644,120</u>

See accompanying notes to schedule.

Mohave County Community College District
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

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 2006 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Loans Outstanding

The expenditures reported on the Schedule of Expenditures of Federal Awards for the Federal Perkins Loan Program—Federal Capital Contributions (CFDA number 84.038) consisted of \$22,064 in loan balances outstanding at June 30, 2006.

Note 4 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2006.

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ROBERT N. SNYDER, C.P.A.

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

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

The Auditor General of the State of Arizona

The Governing Board of
Mohave County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Mohave County Community College District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 6, 2007. Our report was modified to include a reference to our reliance on the report of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct

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

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

Miller, Allen & Co., P.C.

August 6, 2007

MARK L. LANDY, C.P.A.
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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, 2006. 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, 2006.

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.

August 6, 2007

**Mohave County Community College District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006**

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:

<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
84.002	Adult Education – State 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