



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Mohave County Community College District

Year Ended June 30, 2002



Debra K. Davenport
Auditor General

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Mohave County Community College District
Single Audit Reporting Package
Year Ended June 30, 2002

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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Mohave County Community College District

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

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

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

As described in Note 2, the District adopted the provisions of GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, for the year ended June 30, 2002, to implement a new financial reporting model.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport
Auditor General

July 18, 2003

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

This discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2002. Please read it in conjunction with the District's basic financial statements, which immediately follow.

Since this is the implementation year for financial reporting under Governmental Accounting Standards Board (GASB) Statement No. 35, only 1 year of financial data is presented. In future years, a comparative analysis of financial data will be presented.

Basic Financial Statements

Beginning with fiscal year 2001-02, the District is required to present annual financial statements in accordance with 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 new pronouncements permit public colleges and universities to use the guidance for special-purpose governments engaged only in business-type activities, in that their format has shifted from a columnar fund group format to a consolidated, single-column, entity-wide format, similar to the type of financial statements one might encounter from a typical business enterprise or a not-for-profit organization. The basic financial statements consist of the following:

The Statement of Net Assets reflects the District's financial position at June 30, 2002. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represents the institutional equity or ownership in the 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, 2002. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net assets amount, which is shown on the *Statement of Net Assets* described above.

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

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 for 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 missions 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.

<i>Statement of Net Assets</i>	
<i>As of June 30, 2002</i>	
Current assets	\$ 3,973,570
Noncurrent assets, other than capital assets	345,377
Capital assets, net	<u>17,265,404</u>
Total assets	<u>21,584,351</u>
Current liabilities	1,077,085
Noncurrent liabilities	<u>12,516,312</u>
Total liabilities	<u>13,593,397</u>
Net assets:	
Invested in capital assets, net of related debt	5,159,258
Restricted net assets	965,912
Unrestricted net assets	<u>1,865,784</u>
Total net assets	<u>\$ 7,990,954</u>

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

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 \$1,921,312, are included in operating revenues. In compliance with the new pronouncements issued by GASB, scholarship allowances are now recorded as deductions from tuition and fees revenues instead of as scholarship expense. Depreciation expense is recorded for the first time this fiscal year in accordance with the implementation of the new reporting model. The construction and acquisition of capital assets, although budgeted and recorded as an expense in the accounting system, is not recorded as an expense in these statements. Such transactions are instead capitalized and reported as assets with the systematic allocation of such costs (depreciation) expensed over the useful lives of the assets constructed or acquired. The District shows an operating loss reflecting that the two largest revenue sources, property taxes and state appropriations, are considered nonoperating revenues. For a description of the differences between operating and nonoperating, please refer to the Summary of Significant Accounting Policies (Note 1), which directly follows the presentation of the financial statements.

<i>Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended June 30, 2002</i>	
Operating revenues	\$ 5,562,861
Operating expenses	
Educational and general	17,897,242
Auxiliary enterprises	1,540,994
Depreciation	861,236
Other	<u>2,927</u>
Total operating expenses	<u>20,302,399</u>
Operating loss	(14,739,538)
Nonoperating revenues	13,808,692
Nonoperating expenses	<u>(1,040,130)</u>
Loss before other revenues, expenses, gains, or losses	(1,970,976)
Other revenues, expenses, gains, or losses	<u>518,430</u>
Decrease in net assets	(1,452,546)
Net assets, July 1, 2001 (as restated)	<u>9,443,500</u>
Net assets, June 30, 2002	<u>\$ 7,990,954</u>

The July 1, 2001, beginning net assets were restated to reflect the effect of capital assets' accumulated depreciation of \$8,188,309 as a result of implementing GASB Statement No. 35. The remaining restatement of capital assets of \$465,426 was due to the correction of a prior year overstatement of capital assets.

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

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

		% of <u>Total</u>
<u>Operating revenues</u>		
Tuition and fees (net of scholarship allowances)	\$ 1,921,312	9.7
Government grants and contracts	1,881,464	9.5
Private grants and contracts	210,943	1.1
Bookstore income	1,207,751	6.0
Food service income	83,228	0.5
Sales and services	90,650	0.4
Other operating revenues	<u>167,513</u>	<u>0.8</u>
Total operating revenues	<u>5,562,861</u>	<u>28.0</u>
<u>Nonoperating revenues</u>		
Property taxes	9,289,567	46.7
State appropriations	3,944,700	19.8
Share of state sales taxes	362,756	1.8
Private gifts	139,051	0.7
Investment income, net of investment expense	<u>72,618</u>	<u>0.4</u>
Total nonoperating revenues	<u>13,808,692</u>	<u>69.4</u>
Capital appropriations	470,900	2.4
Capital grants and gifts	<u>47,530</u>	<u>0.2</u>
Total revenues	<u>\$19,889,983</u>	<u>100.0</u>

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

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

<u>Operating expenses</u>		<u>% of Total</u>
Education and general:		
Instruction	\$ 5,783,924	27.1
Public service	83,262	0.4
Academic support	4,195,865	19.7
Student services	1,344,922	6.3
Institutional support	3,183,542	14.9
Operation and maintenance of plant	1,599,692	7.5
Scholarships	1,706,035	8.0
Auxiliary enterprises	1,540,994	7.2
Depreciation	861,236	4.0
Other operating expenses	<u>2,927</u>	<u>0.0</u>
Total operating expenses	<u>20,302,399</u>	<u>95.1</u>
 <u>Nonoperating expenses</u>		
Interest expense on debt	634,197	3.0
Other	<u>405,933</u>	<u>1.9</u>
Total nonoperating expenses	<u>1,040,130</u>	<u>4.9</u>
 Total expenses	 <u>\$21,342,529</u>	 <u>100.0</u>

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

Financial Highlights and Analysis

Consistent with its mission to provide effective learning environments, instruction is the primary function of the Mohave County Community College District. Major funding sources supporting instruction and other District functions include property taxes, tuition and fees, and state appropriations. The District exercises primary property tax levy authority for the generation of revenues for operating and debt-retirement purposes. Property tax and tuition and fees revenues have increased. However, during fiscal year 2001-02, the State of Arizona experienced a shortfall in revenue projections; therefore, all entities receiving state aid underwent a budget rescission. The District's cut in state aid was 4.86 percent, but these cuts, along with planned spending for new initiatives and programs utilizing net assets as the funding source, were partially offset by the growth in the property tax base of Mohave County and the increase in tuition and fees revenues. The District's net assets decreased by \$1.5 million during fiscal year 2002 primarily due to depreciation expense on capital assets and the costs of refunding existing long-term debt.

Capital Assets

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

<i>Capital Assets, net of accumulated depreciation</i>	
<i>As of June 30, 2002</i>	
Land and improvements	\$ 2,196,134
Buildings and improvements	14,238,284
Equipment	574,822
Library books	<u>256,164</u>
Total capital assets	<u>\$17,265,404</u>

Due to the implementation of GASB Statement No. 35, the balance of capital assets at June 30, 2002, is reported net of accumulated depreciation of \$8,819,789.

During fiscal year 2001-02, the construction of classrooms, libraries, and revenue-producing facilities costing \$6,831,837 for the Bullhead City and Lake Havasu City campuses was completed. In prior years, these projects were reported as construction in progress. The projects are included in the amounts reported as buildings and improvements at June 30, 2002.

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

Long-Term Debt

At June 30, 2002, the District had two debt issues outstanding. The Series 2000 debt issue, which consisted of \$3,150,000 of revenue bonds and \$4,350,000 of pledged revenue obligations, were used for the construction of new classrooms and revenue-producing facilities, and for repairs, improvements, and renovations to existing buildings. The Series 2001 refunding debt issue, which consisted of \$3,170,000 of tax-exempt, pledged revenue obligations and \$1,460,000 of taxable, pledged revenue obligations, were used to advance-refund the District's Series 1994 Certificates of Participation (COPS). As a result, the Series 1994 COPS are considered defeased as of June 30, 2002, and are not reported in the basic financial statements. An economic loss was incurred in the refunding, and the refunding issue extended the period of debt repayment for 6 more years. In addition, the District had three capital lease contracts payable outstanding at June 30, 2002, totaling \$487,809. Total long-term debt at June 30, 2002, was \$12,617,809.

Current Economic Conditions

For the year ended June 30, 2002, the economic conditions in Mohave County were uncertain, while the demands from the communities for educational services are consistent. Full-Time Equivalent Student Enrollment (FTSE) increased over 2 percent during the year and similar increases in enrollment are expected for the coming year. The District's tuition and fees revenues increased by approximately 15 percent from the previous year. In addition, property taxes revenues increased by approximately 6 percent from the previous year. Mid-year expenditure budget reductions were implemented to offset decreased state appropriations. Other actions were implemented to increase efficiency and reduce costs.

Current Factors Having a Probable Future Financial Significance

The State of Arizona continues to experience revenue shortfalls that may have an impact on state appropriations to the District in future years. During the 2001-02 fiscal year, state appropriations to the District were reduced mid-year by \$225,800, or approximately 4.86 percent. Future reductions are expected, but the precise amount is not known at this time. Plans have been developed to prepare for the effect of future funding reductions. The State's declining support for higher education continues to be a factor of great significance, and presents challenging financial problems for the governing board and internal management in addressing the District's many and varied needs.

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

Requests for Information

This discussion and analysis is designed to provide a general overview of the 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 Business Services Office, Comptroller, Mohave County Community College District, 1971 Jagerson Avenue, Kingman, AZ 86401.

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

Assets

Current assets:	
Cash and cash equivalents	\$ 2,041,368
Receivables:	
Accounts	120,886
Property taxes (less allowances of \$357,321)	978,613
Government grants and contracts	52,274
Student loans, current portion	61,127
Other	364,390
Inventories	344,600
Prepaid items	10,312
Total current assets	<u>3,973,570</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	130,494
Cash and investments held by trustee	203,082
Student loans receivable (less allowances of \$9,578)	11,801
Capital assets, not being depreciated	2,196,134
Capital assets, being depreciated, net	<u>15,069,270</u>
Total noncurrent assets	<u>17,610,781</u>
Total assets	<u>21,584,351</u>

(Continued)

See accompanying notes to financial statements.

Mohave County Community College District
Statement of Net Assets
June 30, 2002
(Continued)

Liabilities

Current liabilities:

Accounts payable	\$ 184,272
Accrued payroll and employee benefits	271,322
Deposits held in custody for others	130,494
Deferred revenues	37,416
Current portion of compensated absences payable	128,631
Current portion of long-term debt	<u>324,950</u>
Total current liabilities	<u>1,077,085</u>

Noncurrent liabilities:

Compensated absences payable	223,453
Long-term debt	<u>12,292,859</u>
Total noncurrent liabilities	<u>12,516,312</u>

Total liabilities	<u>13,593,397</u>
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Net Assets

Invested in capital assets, net of related debt	5,159,258
Restricted:	
Nonexpendable—student loans	54,344
Expendable:	
Grants and contracts	69,337
Debt service	117,258
Capital projects	724,973
Unrestricted	<u>1,865,784</u>

Total net assets	<u>\$ 7,990,954</u>
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See accompanying notes to financial statements.

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

Operating revenues:	
Tuition and fees, net of scholarship allowances of \$349,510, pledged as security for long-term debt	\$ 1,921,312
Government grants and contracts	1,881,464
Private grants and contracts	210,943
Bookstore income, pledged as security for long-term debt	1,207,751
Food service income, pledged as security for long-term debt	83,228
Other sales and services, pledged as security for long-term debt	90,650
Other	<u>167,513</u>
Total operating revenues	<u>5,562,861</u>
Operating expenses:	
Educational and general:	
Instruction	5,783,924
Public service	83,262
Academic support	4,195,865
Student services	1,344,922
Institutional support	3,183,542
Operation and maintenance of plant	1,599,692
Scholarships	1,706,035
Auxiliary enterprises	1,540,994
Depreciation	861,236
Other	<u>2,927</u>
Total operating expenses	<u>20,302,399</u>
Operating loss	<u>(14,739,538)</u>
Nonoperating revenues (expenses):	
Property taxes	9,289,567
State appropriations	3,944,700
Share of state sales taxes	362,756
Private gifts	139,051
Investment income, net of investment expense	72,618
Interest expense on debt	(634,197)
Other	<u>(405,933)</u>
Total nonoperating revenues	<u>12,768,562</u>
Loss before other revenues, expenses, gains, or losses	(1,970,976)
Capital appropriations	470,900
Capital grants and gifts	<u>47,530</u>
Decrease in net assets	(1,452,546)
Total net assets, July 1, 2001, as restated	<u>9,443,500</u>
Total net assets, June 30, 2002	<u>\$ 7,990,954</u>

See accompanying notes to financial statements.

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

Cash flows from operating activities:	
Tuition and fees	\$ 1,901,065
Grants and contracts	2,126,331
Bookstore receipts	1,236,219
Food service receipts	83,228
Sales and services	90,650
Collection of loans to students	4,472
Other receipts	159,698
Payments to suppliers and providers of goods and services	(4,910,703)
Payments to employees	(12,717,802)
Loans issued to students	(4,400)
Payments for scholarships	<u>(1,706,035)</u>
Net cash used for operating activities	<u>(13,737,277)</u>
Cash flows from noncapital financing activities:	
Property taxes	9,295,410
State appropriations	3,944,700
Share of state sales taxes	362,756
Noncapital grants and gifts	139,051
Deposits held in custody for others received	268,898
Deposits held in custody for others disbursed	<u>(227,073)</u>
Net cash provided by noncapital financing activities	<u>13,783,742</u>
Cash flows from capital and related financing activities:	
Capital appropriations	470,900
Proceeds from issuance of capital debt	521,217
Capital grants and gifts	502,575
Principal paid on capital debt	(334,540)
Interest paid on capital debt	(634,197)
Payments made to contractors	(2,135,562)
Purchases of capital assets	<u>(304,692)</u>
Net cash used for capital and related financing activities	<u>(1,914,299)</u>
Cash flows from investing activities:	
Interest received on investments	<u>78,423</u>
Net cash provided by investing activities	<u>78,423</u>
Net decrease in cash and cash equivalents	(1,789,411)
Cash and cash equivalents, July 1, 2001	<u>4,164,355</u>
Cash and cash equivalents, June 30, 2002	<u>\$ 2,374,944</u>

(Continued)

See accompanying notes to financial statements.

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

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (14,739,538)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	861,236
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(120,886)
Student loans receivable	(1,076)
Compensated absences payable	352,084
Decrease in:	
Government grants and contracts receivable	33,924
Other receivables	94,258
Inventories	28,468
Prepaid items	19,961
Accounts payable	(11,959)
Accrued payroll and employee benefits	(233,502)
Deferred revenues	(20,247)
Net cash used for operating activities	<u>\$ (13,737,277)</u>
Reconciliation of cash and cash equivalents, as presented on the Statement of Net Assets:	
Cash and cash equivalents	\$ 2,041,368
Restricted assets:	
Cash and cash equivalents	130,494
Cash and investments held by trustee	203,082
Total cash and cash equivalents, June 30, 2002	<u>\$ 2,374,944</u>
Noncash investing, capital, and noncapital financing activities:	
Accumulated depreciation of disposed capital assets	\$ 229,756
Disposal of capital assets	(229,756)

During the year ended June 30, 2002, the District issued pledged revenue obligations to advance refund \$4 million of outstanding Series 1994 Certificates of Participation.

See accompanying notes to financial statements.

Mohave County Community College District
Notes to Financial Statements
Year Ended June 30, 2002

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Mohave County Community College District conform to generally accepted accounting principles applicable to public institutions engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB). During the year ended June 30, 2002, the District implemented GASB Statement No. 35, which prescribes a new reporting model for public colleges within the reporting guidelines of GASB Statement No. 34, as amended by GASB Statement No. 37. The District also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

A. Reporting Entity

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

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

B. Basis of Presentation and Accounting

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

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

Mohave County Community College District
Notes to Financial Statements
Year Ended June 30, 2002

A statement of cash flows provides information about the District's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

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

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

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

C. Cash and Investments

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

D. Inventories

The bookstore inventory is stated at cost using the weighted-average method. All other inventories are stated at the lower of cost (first-in, first-out method) or market.

E. Capital Assets

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

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

Mohave County Community College District
Notes to Financial Statements
Year Ended June 30, 2002

	Capitalization Threshold		
Land	\$5,000		
Land improvements	5,000		
		Depreciation Method	Estimated Useful Life
Buildings and improvements	5,000	straight-line	20-40 years
Equipment	5,000	straight-line	5 years
Library books	5,000	straight-line	10 years

F. Investment Income

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

G. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees. Therefore, a liability for sick leave benefits is not accrued in the financial statements. However, for employees who have been employed by the District for more than 15 years, sick leave benefits do vest. The maximum number of sick leave hours an employee may accrue is 600 hours, for a maximum payout of \$3,000. Those estimated amounts are accrued as a liability in the financial statements.

H. Scholarship Allowances

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

Mohave County Community College District
Notes to Financial Statements
Year Ended June 30, 2002

Note 2 - Beginning Balances Restated

As a result of implementing GASB Statement No. 35 and a prior period adjustment related to capital assets, the District's aggregate fund balances reported as of June 30, 2001, totaling \$18,097,235, have been restated as beginning net assets of \$9,443,500. The restatement related to the implementation of GASB Statement No. 35 is attributable to recording accumulated depreciation of \$8,188,309 on capital assets. In addition, the District corrected a \$465,426 prior year overstatement of buildings.

Note 3 - Deposits and Investments

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

Cash on Hand—At June 30, 2002, the District had \$14,151 of cash on hand.

Deposits—At June 30, 2002, the carrying amount of the District's deposits was \$374,554, and the bank balance was \$530,381. Of the bank balance, \$121,430 was covered by federal depository insurance or by collateral held by the District or its agent in the District's name and \$408,951 was covered by collateral held by the pledging financial institution's trust department or agent in the District's name.

Investments—At June 30, 2002, the District's investments consisted of the following:

	<u>Fair Value</u>
Cash and investments held by the County Treasurer	\$1,783,157
Cash and investments held by trustee	<u>203,082</u>
Total	<u>\$1,986,239</u>

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

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.

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

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	\$ 14,151	Cash and cash equivalents	\$2,041,368
Carrying amount of deposits	374,554	Restricted assets:	
Reported amount of investments	<u>1,986,239</u>	Cash and cash equivalents	130,494
Total	<u>\$2,374,944</u>	Cash and investments held by trustee	<u>203,082</u>
		Total	<u>\$2,374,944</u>

Note 4 - Capital Assets

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

	Balance July 1, 2001, as restated	Increases	Decreases	Balance June 30, 2002
Capital assets not being depreciated:				
Land and improvements	\$ 2,196,134			\$ 2,196,134
Construction in progress	<u>4,756,773</u>	<u>\$2,135,562</u>	<u>\$6,892,335</u>	<u> </u>
Total capital assets not being depreciated	<u>6,952,907</u>	<u>2,135,562</u>	<u>6,892,335</u>	<u>2,196,134</u>
Capital assets being depreciated:				
Buildings and improvements	12,838,648	6,892,335		19,730,983
Equipment	2,510,667	228,970	221,008	2,518,629
Library books	<u>1,572,473</u>	<u>75,722</u>	<u>8,748</u>	<u>1,639,447</u>
Total capital assets being depreciated	<u>16,921,788</u>	<u>7,197,027</u>	<u>229,756</u>	<u>23,889,059</u>
Less accumulated depreciation for:				
Buildings and improvements	4,867,681	625,018		5,492,699
Equipment	1,985,830	178,985	221,008	1,943,807
Library books	<u>1,334,798</u>	<u>57,233</u>	<u>8,748</u>	<u>1,383,283</u>
Total accumulated depreciation	<u>8,188,309</u>	<u>861,236</u>	<u>229,756</u>	<u>8,819,789</u>
Total capital assets being depreciated, net	<u>8,733,479</u>	<u>6,335,791</u>	<u> </u>	<u>15,069,270</u>
Capital assets, net	<u>\$15,686,386</u>	<u>\$8,471,353</u>	<u>\$6,892,335</u>	<u>\$17,265,404</u>

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

Note 5 - Long-Term Liabilities

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

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2002</u>	<u>Due within 1 year</u>
Compensated absences payable	\$ 237,534	\$ 380,257	\$ 265,707	\$ 352,084	\$128,631
Revenue bonds payable	3,150,000			3,150,000	
Certificates of participation payable	4,205,000		4,205,000		
Pledged revenue obligations	4,350,000	4,630,000		8,980,000	150,000
Capital leases payable	<u>320,199</u>	<u>297,150</u>	<u>129,540</u>	<u>487,809</u>	<u>174,950</u>
Total long-term debt	<u>\$12,025,199</u>	<u>\$4,927,150</u>	<u>\$4,334,540</u>	<u>\$12,617,809</u>	<u>\$324,950</u>

The beginning compensated absences payable balance of \$237,534 was reported in the current funds' accrued payroll and related expenses payable balance at June 30, 2001, on the June 30, 2001, financial statements.

Revenue bonds—The District's bonded debt consists of Series 2000 revenue bonds that are generally callable with interest payable semiannually. Bond proceeds primarily pay for the 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 sales and services.

Revenue bonds outstanding at June 30, 2002, were as follows:

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

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

The following schedule details debt service requirements to maturity for the District's revenue bonds payable at June 30, 2002:

Year Ending June 30,	Principal	Interest
2003		\$ 189,000
2004		189,000
2005		189,000
2006		189,000
2007		189,000
2008-12		945,000
2013-17	\$1,150,000	911,400
2018-20	<u>2,000,000</u>	<u>244,500</u>
Total	<u>\$3,150,000</u>	<u>\$3,045,900</u>

Pledged revenue obligations—The District's pledged revenue obligations debt consists of obligations issued under the terms of agreements with the trustee. The obligations are payable solely from lease payments pursuant to lease purchase agreements and mature in 1 to 13 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 sales and services. 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, 2002, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Series 2000	\$4,350,000	2010-2015	5.5%	\$4,350,000
Series 2001 Refunding	4,630,000	2003-2015	3.75-5.75	4,630,000

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

The following schedule details debt service requirements to maturity for the District's pledged revenue obligations at June 30, 2002:

Year Ending June 30,	<u>Series 2000</u>		<u>Series 2001</u>	
	Principal	Interest	Principal	Interest
2003		\$ 239,250	\$ 150,000	\$ 224,790
2004		239,250	305,000	219,165
2005		239,250	320,000	206,660
2006		239,250	335,000	192,260
2007		239,250	350,000	175,510
2008-12	\$1,995,000	1,090,375	1,835,000	636,625
2013-15	<u>2,355,000</u>	<u>263,450</u>	<u>1,335,000</u>	<u>143,710</u>
Total	<u>\$4,350,000</u>	<u>\$2,550,075</u>	<u>\$4,630,000</u>	<u>\$1,798,720</u>

During the year ended June 30, 2002, the District issued pledged revenue obligations, with interest rates ranging from 3.75-5.75 percent, to advance-refund the Series 1994 Certificates of Participation, with interest rates ranging from 5.99-6.55 percent. The District realized net proceeds of \$4,511,873, after payment of \$208,724 in underwriting fees, insurance, and other issuance costs. These proceeds were used to purchase securities that were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased and related liabilities are not included in the District's financial statements. Details of the refunding transactions are as follows:

Amount of refunding obligations issued	\$4,630,000
Amount of certificates of participation refunded	4,000,000
Increase in debt service payments	1,382,928
Economic loss	478,917

An economic loss was incurred due to the debt restructuring, which extended the period of debt repayment an additional 6 years.

Capital leases—The District has acquired equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term. However, only \$102,424 of such assets met the District's capitalization threshold, and therefore, were capitalized as of June 30, 2002.

Equipment	\$102,424
Less: Accumulated depreciation	<u>30,727</u>
Carrying value	<u>\$ 71,697</u>

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

The following schedule details debt service requirements to maturity for the District's capital leases payable at June 30, 2002:

Year Ending June 30,	
2003	\$203,968
2004	194,620
2005	112,487
2006	<u>29,198</u>
Total minimum lease payments	540,273
Less amount representing interest	<u>52,464</u>
Present value of net minimum lease payments	<u>\$487,809</u>

Note 6 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

Note 7 - Operating Leases

The District leases equipment under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$66,448 for the year ended June 30, 2002. The operating leases have remaining noncancelable terms from 1 to 3 years. The future minimum payments required under the operating leases at June 30, 2002, were as follows:

Year Ending June 30,	
2003	\$ 53,610
2004	42,800
2005	<u>16,286</u>
Total minimum lease payments	<u>\$112,696</u>

Note 8 - 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.

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

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

Funding policy—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2002, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2002, 2001, and 2000, were \$224,598, \$214,758, and \$180,835, respectively, which were equal to the required contributions for the year.

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	\$12,836,384
Contract services	794,212
Supplies and other services	2,271,283
Communications and utilities	793,471
Scholarships	1,706,035
Depreciation	861,236
Other	<u>1,039,778</u>
Total	<u>\$20,302,399</u>

Supplementary Information

Mohave County Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of the Interior			
Fish and Wildlife Management Assistance	15.608		\$ <u>773</u>
U.S. Small Business Administration			
Passed through the Maricopa County Community College District Small Business Development Center	59.037	01-7620-0003-9	<u>44,558</u>
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		63,874
Federal Work-Study Program	84.033		40,312
Federal Perkins Loan Program—Federal Capital Contributions	84.038		15,735
Federal Pell Grant Program	84.063		<u>1,219,561</u>
Total Student Financial Assistance Cluster			<u>1,339,482</u>
Passed through the Arizona Department of Education			
Adult Education—State Grant Program	84.002	02FAEABE-270556-01A	112,018
Tech-Prep Education	84.243	02FVEDTP-270556-03A	84,036
Passed through the Arizona State Board of Directors for Community Colleges			
Vocational Education—Basic Grants to States	84.048	02FVEDBG-270556-04A	110,115
Passed through the Arizona Commission for Postsecondary Education			
Leveraging Educational Assistance Partnership	84.069	011864	71,223
Passed through the Arizona Department of Economic Security			
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	E5339222	<u>6,290</u>
Total U.S. Department of Education			<u>1,723,164</u>
Total Expenditures of Federal Awards			<u>\$ 1,768,495</u>

See accompanying notes to schedule.

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

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of 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 2002 *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 \$15,735 in loan balances outstanding at June 30, 2002.

Note 4 - Subrecipients

The District did not provide federal awards to subrecipients during the year ended June 30, 2002.



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of
Mohave County Community College District

We have audited the basic financial statements of Mohave County Community College District as of and for the year ended June 30, 2002, and have issued our report thereon dated July 18, 2003, which was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 35. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we will report to the District's management in a separate letter.

Internal Control over Financial Reporting

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

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

Debbie Davenport
Auditor General

July 18, 2003



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Governing Board of
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 its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program cluster is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control over Compliance

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

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

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

Debbie Davenport
Auditor General

July 18, 2003

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

Summary of Auditors' Results

Financial Statements

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

Federal Awards

Material weakness identified in internal control over major programs?	—	<u>X</u>	
Reportable condition identified not considered to be a material weakness?	—	<u>X</u> (None reported)	
Type of auditors' report issued on compliance for major programs:		Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	—	<u>X</u>	

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.007	Student Financial Assistance Cluster:
84.033	Federal Supplemental Educational Opportunity Grants
84.038	Federal Work-Study Program
84.063	Federal Perkins Loan Program—Federal Capital Contributions
	Federal Pell Grant Program

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

Other Matters

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