

**Santa Cruz County Provisional Community
College District**
(Santa Cruz Community College)

Annual Financial Report and
Report on Internal Control
and on Compliance

Year Ended June 30, 2020

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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ANNUAL FINANCIAL REPORT



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

The Governing Board of
Santa Cruz County Provisional Community College District

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities and General Fund of the Santa Cruz County Provisional Community College District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of the District as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other matters

Required supplementary information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-5, budgetary comparison schedule—General Fund on pages 12 and 13, schedule of the District's proportionate share of the net pension liability on page 14, and schedule of District pension contributions on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2021, 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 solely 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 the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Lindsey A. Perry, CPA, CFE
Auditor General

May 10, 2021

Santa Cruz County Provisional Community College District

(Santa Cruz Community College)

Management's discussion and analysis

Year ended June 30, 2020

This discussion and analysis of the Santa Cruz County Provisional Community College District's (District) financial performance is prepared by the District's management and provides an overview of the District's financial position and activities for the year ended June 30, 2020. Please read it in conjunction with the financial statements, which immediately follow.

Basic financial statements

The District's annual financial statements were prepared in conformity with U.S. generally accepted accounting principles (GAAP). The District is a special-purpose governmental unit governed by a separately elected governing board. The financial statements are presented in accordance with the reporting model prescribed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis*, and consist of the following:

The government-wide and fund financial statements are combined, with a reconciliation shown between them.

The governmental fund balance sheet/statement of net position and statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities combines information about the reporting government as a whole and fund statements to report the General Fund's financial position and the results of its operations. Government-wide financial statements are designed to provide readers with a broad overview of the District's finances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain district functions or activities.

The General Fund is the District's general operating fund. It is used to account for all of the District's financial resources.

Financial highlights and analysis

In accordance with state statute, the District does not offer degrees, certificates, or diplomas. As a result, the District has contracted with Pima Community College District (PCC) to provide educational programs and services.

The District and PCC entered into an intergovernmental agreement and operating agreement under which PCC provides educational programs and services to the District from July 1, 2019 through June 30, 2020. The agreement established that PCC will provide educational programs; faculty certification; student admission and registration; PCC employee payroll services; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; tuition and credit course fee collection; cashiering for PCC-related functions; access to information relative to enrollments; and payment to adjunct faculty.

The District exercises primary tax levy authority for the generation of funds and collects other general revenues to pay for the contracted education and other general operating expenses. The District continues to act in a financially conservative manner during the budgetary process, looking to maintain a secure financial future for the institution.

Santa Cruz County Provisional Community College District
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Year ended June 30, 2020

Condensed financial information

The financial information in the statement of net position on page 1 reflects the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The statement of activities on page 2 presents the District's operations. Over time, increases or decreases in net position may serve as a useful indicator of whether the District financial position is improving or regressing. The following tables present summaries of the District's net position and the changes in net position for the years ended June 30, 2019 and 2020.

Net position
As of June 30, 2020 and 2019

	June 30, 2020	June 30, 2019	Increase/ (decrease)
Assets:			
Current assets	<u>\$2,970,264</u>	<u>\$2,664,531</u>	<u>\$ 305,733</u>
Total assets	<u>2,970,264</u>	<u>2,664,531</u>	<u>305,733</u>
Deferred outflows of resources:			
Pension and other postemployment benefits	<u>266,872</u>	<u>14,728</u>	<u>252,144</u>
Total Deferred outflows of resources	<u>266,872</u>	<u>14,728</u>	<u>252,144</u>
Liabilities:			
Current liabilities	55,559	156,414	(100,855)
Long-term liabilities	<u>358,456</u>	<u>70,629</u>	<u>287,827</u>
Total liabilities	<u>414,015</u>	<u>227,043</u>	<u>186,972</u>
Deferred inflows of resources:			
Pension and other postemployment benefits	<u>23,725</u>		<u>23,725</u>
Total Deferred inflows of resources	<u>23,725</u>		<u>23,725</u>
Net position:			
Net investment in capital assets		(40,000)	40,000
Unrestricted	<u>2,799,396</u>	<u>2,492,216</u>	<u>307,180</u>
Total net position	<u>\$2,799,396</u>	<u>\$2,452,216</u>	<u>\$ 347,180</u>

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
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Year ended June 30, 2020

Changes in net position
For the years ended June 30, 2020 and 2019

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Increase/ (decrease)</u>
Expenses:			
Educational and general	\$1,463,995	\$1,424,514	\$ 39,481
Total expenses	<u>1,463,995</u>	<u>1,424,514</u>	<u>39,481</u>
Revenues:			
Program revenues:			
Charges for services		<u>38,529</u>	<u>(38,529)</u>
Total program revenues		<u>38,529</u>	<u>(38,529)</u>
General revenues:			
Property taxes	1,668,747	1,621,527	47,220
State appropriations	91,100	146,500	(55,400)
Share of State sales taxes	21,196	25,565	(4,369)
Miscellaneous	<u>30,132</u>	<u>69,097</u>	<u>(38,965)</u>
Total general revenues	<u>1,811,175</u>	<u>1,862,689</u>	<u>(51,514)</u>
Total revenues	<u>1,811,175</u>	<u>1,901,218</u>	<u>(90,043)</u>
Change in net position	347,180	476,704	<u>\$(129,524)</u>
Net position:			
Beginning	<u>2,452,216</u>	<u>1,975,512</u>	
Ending	<u>\$2,799,396</u>	<u>\$2,452,216</u>	

Significant variances

For the fiscal year ended June 30, 2020, the tenth year of operations for the District, the financial data presented above is for analysis and comparison of significant variances relative to assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

Overall, total assets increased by \$305,733 or 11 percent and total liabilities increased by \$186,972 or 82 percent.

- The significant net increase in total assets was primarily due to an increase in cash of \$362,121. The cash increased largely due to \$1.8 million of receipts collected before June 30, 2020, and only \$1.5 million of disbursements incurred during the fiscal year.
- The significant increases in total liabilities and total deferred outflows and inflows of resources were caused by the District joining the Arizona State Retirement System in fiscal year 2019. As a result, U.S. generally accepted accounting principles required the District to report a net pension/OPEB liability and the related deferred outflows and inflows for pension/OPEB for the first time in fiscal year 2020.

Santa Cruz County Provisional Community College District

(Santa Cruz Community College)

Management's discussion and analysis

Year ended June 30, 2020

Overall, total general revenues remained relatively stable as compared to the prior year. Total general revenues decreased by \$51,514 or 2.8 percent. Total expenses increased by \$39,481 or 2.8 percent mostly due to the recording of the pension/OPEB expense.

General fund budget

The District's actual educational and general expenditures were \$1,380,439 which was less than the budgeted amount. The new educational provider was not able to teach a full list of its offerings, as it awaited approval from its accreditor and the federal government, for the Santa Cruz location. Therefore, actual expenditures were less than budgeted. The District also continues to take a conservative approach with its spending practices. The current situation with COVID-19 has forced our educational provider and the District itself to close offices bringing expenses down.

Additional budgetary information can be found on pages 12 and 13 of this report.

Capital assets and debt administration

Capital assets

At June 30, 2020, the District had no capital assets.

Long-term debt

The District's long-term liabilities consists of pension and other post-employment benefits and compensated absences payable to District employees.

Additional information on the District's long-term liabilities can be found in Note 4 to Financial Statements on page 6 of this report.

Current factors having probable future financial significance

Proposition 301 monies are given to provisional community colleges to use for workforce development activities. The District began receiving these monies during fiscal year 2013. For the 2020 fiscal year, the District received \$21,196 and expects to receive approximately \$25,000 annually. It is anticipated that the State will continue to take a conservative approach to state spending and budgeting in the immediate fiscal periods to come. This represents a small portion of the District's annual revenues.

State Equalization Aid to the District decreased by \$55,400 from the previous year and is expected to decrease again during the 2020-2021 fiscal year because of a drop in Full-Time Equivalent Student Enrollment (FTSE).

The District and Cochise Community College ended their working relationship at the end of 2016-2017. The District entered a new working relationship with Pima Community College for 2017-2022. This set of circumstances resulted in a reduction in FTSE for the first and second school years and continued into the 2019-2020 school year. Enrollment was improving before the onset of COVID-19. These circumstances

**Santa Cruz County Provisional Community College District
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Management's discussion and analysis
Year ended June 30, 2020**

could impact the expenditure limit in a negative way in future years. The District will continue its mission of providing outstanding educational services to our constituencies at affordable prices and monitor any external economic changes and their impacts on the District. As in previous years, the District plans to keep its tax levy at the maximum without a truth-in-taxation hearing. The District does not have any impact on adjustments to tuition. Nevertheless, the District continues to explore additional cost saving measures.

Request for information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact Georgina Tavera, Chief Fiscal Officer at (520) 287-5583.

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Governmental fund balance sheet/statement of net position
June 30, 2020

	Balance sheet— General Fund	Reconciliation (Note 6)	Statement of net position— governmental activities
Assets			
Cash in bank	\$ 2,630,132		\$ 2,630,132
Property taxes receivable	320,297		320,297
Prepaid items	<u>19,835</u>		<u>19,835</u>
Total assets	<u>2,970,264</u>		<u>2,970,264</u>
Deferred outflows of resources			
Pension and other postemployment benefits		<u>\$ 266,872</u>	<u>266,872</u>
Total deferred outflows of resources		<u>266,872</u>	<u>266,872</u>
Liabilities			
Accounts payable	2,216		2,216
Due to other governments	39,109		39,109
Unearned revenue	3,784		3,784
Compensated absences payable:			
Due within 1 year	10,450		10,450
Due in more than 1 year		12,699	12,699
Net pension and other postemployment benefits liability			
Due in more than 1 year		<u>345,757</u>	<u>345,757</u>
Total liabilities	<u>55,559</u>	<u>358,456</u>	<u>414,015</u>
Deferred inflows of resources			
Pension and other postemployment benefits		23,725	23,725
Unavailable revenue—property taxes	<u>271,909</u>	<u>(271,909)</u>	
Total deferred inflows of resources	<u>271,909</u>	<u>(248,184)</u>	<u>23,725</u>
Fund balance/net position			
Fund balance:			
Nonspendable	19,835	(19,835)	
Unassigned	<u>2,622,961</u>	<u>(2,622,961)</u>	
Total fund balance	<u>2,642,796</u>	<u>(2,642,796)</u>	
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,970,264</u>		
Net position:			
Unrestricted		<u>2,799,396</u>	<u>2,799,396</u>
Total net position		<u>\$ 2,799,396</u>	<u>\$ 2,799,396</u>

See accompanying notes to financial statements.

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Statement of governmental fund revenues, expenditures, and
changes in fund balance/statement of activities
Year ended June 30, 2020

	<u>General Fund</u>	<u>Reconciliation (Note 6)</u>	<u>Statement of activities— governmental activities</u>
Expenditures/expenses:			
Educational and general	\$ 1,340,439	\$ 123,556	\$ 1,463,995
Debt service—principal retirement	<u>40,000</u>	<u>(40,000)</u>	<u> </u>
Total expenditures/expenses	<u>1,380,439</u>	<u>83,556</u>	<u>1,463,995</u>
General revenues:			
Property taxes	1,659,533	9,214	1,668,747
State appropriations	91,100		91,100
Share of State sales taxes	21,196		21,196
Miscellaneous	<u>30,132</u>	<u> </u>	<u>30,132</u>
Total general revenues	<u>1,801,961</u>	<u>9,214</u>	<u>1,811,175</u>
Net change in fund balance	421,522	(421,522)	
Change in net position		347,180	347,180
Fund balance/net position:			
July 1, 2019	<u>2,221,274</u>	<u>230,942</u>	<u>2,452,216</u>
June 30, 2020	<u>\$ 2,642,796</u>	<u>\$ 156,600</u>	<u>\$ 2,799,396</u>

See accompanying notes to financial statements.

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Notes to financial statements
June 30, 2020

Note 1 - Summary of significant accounting policies

The accounting policies of the Santa Cruz County Provisional Community College District (District) conform to generally accepted accounting principles applicable to governmental units 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 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).

Because the District is a provisional district, it cannot offer degrees, certificates, or diplomas and, therefore, contracts with an accredited district. Educational programs and services are provided through intergovernmental agreements as follows:

The District and Pima Community College (PCC) entered into an intergovernmental operating agreement under which PCC provides educational programs and services to the District from July 1, 2019 through June 30, 2020. The agreement established that PCC will provide educational programs; certification of faculty; admission and registration of students; payroll services for PCC employees; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; collection of all tuition and fees for credit courses; cashiering for PCC-related functions; access to information relative to enrollments; and payment to adjunct faculty.

The District contracts with PCC to provide administrative and instructional personnel. The cost of the personnel compensation and related benefits is paid to PCC through an intergovernmental agreement.

B. Basis of presentation and accounting

The basic financial statements include the governmental fund balance sheet/statement of net position and the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities. Since the District is a single-program government, it presents the government-wide financial statements in combination with the fund financial statements.

The governmental fund balance sheet/statement of net position provides information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance/net position of the District at the end of the year. Assets and liabilities are presented by relative order of liquidity. Net position is classified according to external donor restrictions or availability of assets to satisfy district obligations. The District does not have any net position that is externally restricted for specific purposes. Unrestricted net position consists of all other resources, including those that management has designated to be used for anything other than general operating purposes.

Santa Cruz County Provisional Community College District

(Santa Cruz Community College)

Notes to financial statements

June 30, 2020

The statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities provides information about the District's financial activities during the year. Revenues are classified as either program or general, and all changes in net position are reported. Generally, revenues the District generates for instruction and student services along with operating and capital grants and contributions are considered to be program revenues. The District had no program revenues in fiscal year 2020. Other revenues used for instruction and student services, such as property taxes, state appropriations, and share of state sales taxes, not classified as program revenues are considered to be general revenues.

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government.

The fund financial statements, the governmental fund balance sheet, and the statement of governmental fund revenues, expenditures, and changes in fund balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The District considers all revenues reported in the governmental fund to be available if the revenues are collected within 60 days after year-end. The District's major revenue sources susceptible to accrual are property taxes, state appropriations, and share of state sales taxes. Expenditures are recorded when the related fund liability is incurred.

The government-wide financial statements, the statement of net position, and the statement of activities 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 as revenue in the year in which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed 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 position is available.

C. Cash and investments

The District's cash consists of demand deposits. The District had no investments at June 30, 2020.

D. Property tax calendar

The District's property tax is adopted by the Governing Board and reviewed on an annual basis. The Santa Cruz County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Notes to financial statements
June 30, 2020

E. Deferred outflows and deferred inflows of resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of fund balance that applies to future periods and will be recognized as a revenue in future periods.

F. Postemployment benefits

For purposes of measuring the net pension and other postemployment benefits (OPEB) liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Fund balance classifications

The governmental fund's fund balance is reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications. The District's fund balance consists of only nonspendable and unassigned.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, prepaid items, or are legally or contractually required to be maintained intact.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, the District uses restricted fund balances first. For the disbursement of unrestricted fund balances, the District uses committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

H. Compensated absences

Compensated absences payable consists of combined vacation and sick leave full-time employees earned based on services already rendered. Employees may accumulate up to 384 hours of leave, but they forfeit any unused vacation hours in excess of the maximum amount at fiscal year-end. Upon terminating employment, or contract completion in the case of the District's Executive Director, the District pays all unused and unforfeited vacation benefits to employees. Accordingly, vacation and sick benefits are accrued as a liability in the financial statements.

Santa Cruz County Provisional Community College District
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June 30, 2020

Note 2 - Deposits

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. A.R.S. does 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. A.R.S. requires collateral for deposits at 102 percent of all deposits not covered by federal depository insurance.

Deposits—At June 30, 2020, the carrying amount of the District's deposits was \$2,630,132 and the bank balance was \$2,816,665. The District does not have a formal policy with respect to custodial credit risk of deposits.

Note 3 - Due to other governments

At June 30, 2020, the District's due to other governments consisted of \$39,109 due to PCC for providing educational programs and services.

Note 4 - Long-term liabilities

The following schedule details the District's long-term liability activity for the year ended June 30, 2020:

	Balance			Balance	Due within
Governmental activities	July 1, 2019	Additions	Reductions	June 30, 2020	1 year
Compensated absences payable	\$30,629	\$ 32,039	\$39,519	\$ 23,149	\$10,450
Contracts payable	40,000	0	40,000	0	0
Net pension/OPEB liability	<u>0</u>	<u>345,757</u>	<u>0</u>	<u>345,757</u>	<u>0</u>
Total governmental activities long-term liabilities	<u>\$70,629</u>	<u>\$377,796</u>	<u>\$79,519</u>	<u>\$368,906</u>	<u>\$10,450</u>

Note 5 - Pension and other postemployment benefits

Plan description—District employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

The OPEB plans are not described due to their relative insignificance to the District's financial statements.

Benefits provided—The ASRS provides retirement and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

Santa Cruz County Provisional Community College District
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Notes to financial statements
June 30, 2020

	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

Contributions—In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2020, statute required active ASRS members to contribute at the actuarially determined rate of 11.94 percent of the members’ annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.45 percent of the active members’ annual covered payroll. In addition, the District was required by statute to contribute at the actuarially determined rate of 10.29 percent of annual covered payroll of retired members who worked for the District in positions that an employee who contributes to the ASRS would typically fill. The District’s contributions to the pension plan for the year ended June 30, 2020, were \$33,493.

Liability—At June 30, 2020, the District reported a net pension liability of \$344,863 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2019. The total liability used to calculate the net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019. The District’s proportion of the net liability was based on the District’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2019, which was the first year the District participated in ASRS. The District’s proportion measured as of June 30, 2019, was 0.00237 percent.

Expense—For the year ended June 30, 2020, the District recognized pension expense for ASRS of \$151,415.

Deferred outflows/inflows of resources—At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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Notes to financial statements
June 30, 2020

ASRS	Pension	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 6,230	\$ 65
Changes of assumptions or other inputs	1,458	13,733
Net difference between projected and actual earnings on plan investments		7,751
Changes in proportion and differences between district contributions and proportionate share of contributions	221,263	
District contributions subsequent to the measurement date	<u>33,493</u>	
Total	<u>\$262,444</u>	<u>\$21,549</u>

The amounts reported as deferred outflows of resources related to ASRS pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized as expenses as follows:

Year ending June 30	Pension
2021	\$111,194
2022	95,621
2023	(1,489)
2024	2,076

Actuarial assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

ASRS	
Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7–7.2%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real

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rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

ASRS		
Asset class	Target allocation	Long-term expected geometric real rate of return
Equity	50%	6.09%
Credit	20%	5.36%
Interest rate sensitive bonds	10%	1.62%
Real estate	<u>20%</u>	5.85%
Total	<u>100%</u>	

Discount rate—The discount rate used to measure the ASRS total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the ASRS net pension liability to changes in the discount rate—The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

ASRS			
	1% Decrease (6.5%)	Current discount rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the Net pension liability	\$490,819	\$344,863	\$222,880

Plan fiduciary net position—Detailed information about the plan's fiduciary net position is available in the separately issued ASRS financial report.

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Notes to financial statements
June 30, 2020

Note 6 - Reconciliations

The reconciliation of the governmental fund balance sheet to the statement of net position at June 30, 2020, was as follows:

Fund balance—governmental fund		\$2,642,796
Amounts reported for governmental activities in the statement of net position are different because:		
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the fund.		271,909
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund.		
Net pension/OPEB liability	(345,757)	
Compensated absences payable	(12,699)	(358,456)
Deferred outflows and inflows of resources related to pension/OPEB are applicable to future reporting periods and, therefore, are not reported in the fund.		
Deferred outflows of resources related to pension/OPEB	266,872	
Deferred inflows of resources related to pension/OPEB	(23,725)	<u>243,147</u>
Net position of governmental activities		<u>\$2,799,396</u>

The reconciliation of the statement of governmental fund revenues, expenditures, and changes in fund balance to the statement of activities for the year ended June 30, 2020, was as follows:

Net change in fund balance—governmental fund		\$421,522
Amounts reported for governmental activities in the statement of activities are different because:		
Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.		40,000
Principal repaid		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.		9,214
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.		
Increase in compensated absences		(6,218)
District pension/OPEB contributions are reported as expenditures in the governmental fund when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension/OPEB liability is measured a year before the District's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pension/OPEB is reported in the statement of activities.		
District pension/OPEB contributions	35,423	
Pension/OPEB expense	<u>(152,761)</u>	<u>(117,338)</u>
Change in net position of governmental activities		<u>\$ 347,180</u>

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Notes to financial statements
June 30, 2020

Note 7 - 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 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 automobile risks. The Trust’s operating agreement includes a provision for the member to be charged an additional assessment in the event that total claims paid by the Trust exceed the members’ contributions and reserves in any one year. The District will be charged for any such assessment in the following year.

Note 8 - Operating lease

The District leases real property for educational services under the provisions of a long-term lease agreement classified as an operating lease for accounting purposes. Rental expenditures under the terms of the operating lease were \$299,880 for the year ended June 30, 2020. The operating lease provides renewal options and was renewed through the period ending June 29, 2023. The following future minimum payments were required under the operating lease at June 30, 2020:

Year ending June 30	
2021	\$314,148
2022	321,300
2023	<u>328,428</u>
Total minimum lease payments	<u>\$963,876</u>

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Required supplementary information
Budgetary comparison schedule—General Fund
Year ended June 30, 2020

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 1,668,747	\$ 1,668,747	\$ 1,659,533	\$ (9,214)
State appropriations	15,000	15,000	91,100	76,100
Share of State sales taxes	30,000	30,000	21,196	(8,804)
Miscellaneous	<u>11,693</u>	<u>11,693</u>	<u>30,132</u>	<u>18,439</u>
Total revenues	<u>1,725,440</u>	<u>1,725,440</u>	<u>1,801,961</u>	<u>76,521</u>
Expenditures:				
Educational and general	<u>1,771,874</u>	<u>1,771,874</u>	<u>1,380,439</u>	<u>391,435</u>
Total expenditures	<u>1,771,874</u>	<u>1,771,874</u>	<u>1,380,439</u>	<u>391,435</u>
Net change in fund balance	(46,434)	(46,434)	421,522	467,956
Fund balance:				
July 1, 2019	<u>2,410,376</u>	<u>2,410,376</u>	<u>2,221,274</u>	<u>(189,102)</u>
June 30, 2020	<u>\$ 2,363,942</u>	<u>\$ 2,363,942</u>	<u>\$ 2,642,796</u>	<u>\$ 278,854</u>

See accompanying note to budgetary comparison schedule.

Santa Cruz County Provisional Community College District
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Required supplementary information
Note to budgetary comparison schedule—General Fund
June 30, 2020

Note - Budgeting and budgetary control

Arizona Revised Statutes require the District to prepare and adopt a budget annually. The Governing Board must approve the operating and capital outlay budgets on or before June 20. The Governing Board shall not adopt the budget if the property tax requirements of the budget, excluding amounts budgeted and levied for secondary property taxes, exceed the amounts established by statute. The budget must contain the estimated cost of all operating, capital outlay, and debt service expenditures. The District budgets all General Fund expenditures in total because many costs are paid through the agreement with Pima Community College.

Santa Cruz County Provisional Community College District
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Schedule of the District's proportionate share of the net pension liability
June 30, 2020

ASRS-Pension	Reporting Fiscal Year (Measurement date)
	2020
	(2019)
District's proportion of the net pension liability	0.00237%
District's proportionate share of the net pension liability	\$ 344,863
District's covered payroll	\$ 124,812
District's proportionate share of the net pension liability as a percentage of its covered payroll	276.31%
Plan fiduciary net position as a percentage of the total pension liability	73.24%

*The remaining 9 years of required data are not available as the District only began participating in the plan during fiscal year 2019.

Santa Cruz County Provisional Community College District
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Schedule of District pension contributions
June 30, 2020

ASRS-Pension	Reporting Fiscal Year	
	2020	2019
Statutorily required contribution	\$ 33,493	\$ 13,954
District's contributions in relation to the statutorily required contribution	<u>(33,493)</u>	<u>(13,954)</u>
District's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 292,515	\$ 124,812
District's contributions as a percentage of covered payroll	11.45%	11.18%

*The remaining 8 years of required data are not available as the District only began participating in the plan during fiscal year 2019.

INTERNAL CONTROL/COMPLIANCE REPORT



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' 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*

Members of the Arizona State Legislature

The Governing Board of
Santa Cruz County Provisional Community College District

We have audited, 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 governmental activities and General Fund of Santa Cruz County Provisional Community College District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 10, 2021.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free from 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 financial statements. 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*.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey A. Perry, CPA, CFE
Auditor General

May 10, 2021

