

**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, 2017

A Report to the Arizona Legislature

Debra K. Davenport  
Auditor General





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**John Faulk**, Manager and Contact Person

## Contact Information

**Arizona Office of the Auditor General**

**2910 N. 44th St.**

**Ste. 410**

**Phoenix, AZ 85018**

**(602) 553-0333**

**[www.azauditor.gov](http://www.azauditor.gov)**



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# ANNUAL FINANCIAL REPORT



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
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 Santa Cruz County Provisional Community College District as of and for the year ended June 30, 2017, 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, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of Santa Cruz County Provisional Community College District as of June 30, 2017, 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 and the budgetary comparison schedule—general fund listed in the table of contents 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 March 15, 2018, 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 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.

Debbie Davenport  
Auditor General

March 15, 2018

# **Santa Cruz County Provisional Community College District**

## **(Santa Cruz Community College)**

### **Management's discussion and analysis**

#### **Year ended June 30, 2017**

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, 2017. 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 combine 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 Cochise County Community College District (CC) to provide educational programs and services.

The District and CC entered into an intergovernmental agreement and operating agreement under which CC provides educational programs and services to the District from July 1, 2016 through June 30, 2017. The agreement established that CC will provide educational programs; certification of faculty; admission and registration of students; payroll services for CC 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 CC-related functions; access to information relative to enrollments; and payment to adjunct faculty.

The District exercises primary tax levy authority for generating 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**  
**(Santa Cruz Community College)**  
**Management's discussion and analysis**  
**Year ended June 30, 2017**

Condensed financial information

The financial information in the statement of net position on page 1 reflects the District's assets, liabilities, 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's 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, 2016 and 2017:

***Net position***  
***As of June 30, 2017 and 2016***

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Increase/ (decrease)</u>
<b>Assets:</b>			
Current assets	\$1,863,105	\$1,524,534	\$338,571
Capital assets, net	<u>95,623</u>	<u>191,248</u>	<u>(95,625)</u>
Total assets	<u>1,958,728</u>	<u>1,715,782</u>	<u>242,946</u>
<b>Liabilities:</b>			
Current liabilities	391,606	386,228	5,378
Long-term liabilities	<u>124,805</u>	<u>184,611</u>	<u>(59,806)</u>
Total liabilities	<u>516,411</u>	<u>570,839</u>	<u>(54,428)</u>
<b>Net position:</b>			
Net investment in capital assets	(29,182)	6,637	(35,819)
Unrestricted	<u>1,471,499</u>	<u>1,138,306</u>	<u>333,193</u>
Total net position	<u>\$1,442,317</u>	<u>\$ 1,144,943</u>	<u>\$297,374</u>

**Santa Cruz County Provisional Community College District**  
**(Santa Cruz Community College)**  
**Management's discussion and analysis**  
**Year ended June 30, 2017**

*Changes in net position*  
*For the years ended June 30, 2017 and 2016*

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Increase/ (decrease)</u>
<b>Expenses:</b>			
Educational and general	\$1,335,186	\$1,041,782	\$ 293,404
Amortization	<u>95,625</u>	<u>95,625</u>	<u>          </u>
Total expenses	<u>1,430,811</u>	<u>1,137,407</u>	<u>293,404</u>
<b>Revenues:</b>			
General revenues:			
Property taxes	1,529,974	1,483,708	46,266
State appropriations	142,600	110,400	32,200
Share of state sales taxes	40,931	35,842	5,089
Miscellaneous	<u>14,680</u>	<u>12,770</u>	<u>1,910</u>
Total revenues	<u>1,728,185</u>	<u>1,642,720</u>	<u>85,465</u>
Change in net position	297,374	505,313	<u><u>\$(207,939)</u></u>
<b>Net position:</b>			
Beginning	<u>1,144,943</u>	<u>639,630</u>	
Ending	<u><u>\$1,442,317</u></u>	<u><u>\$1,144,943</u></u>	

**Significant variances**

For the fiscal year ended June 30, 2017, the District's seventh year of operations, the financial data presented above is for analysis and comparison of significant variances relative to assets, liabilities, net position, revenues, and expenses.

Overall, total assets increased by \$242,946, or 14 percent, and total liabilities decreased by \$54,428, or 10 percent.

- The significant net increase in total assets was primarily due to an increase in cash of \$302,866 and a decrease in leasehold improvements of \$95,625. The cash increased largely because of \$1.7 million of receipts collected before June 30, 2017, and only \$1.4 million of disbursements incurred during the fiscal year. The leasehold improvements decreased mainly because of the annual amortization expense incurred for the current fiscal year.
- The contracts payable decreased by \$59,806 from the prior year as a result of regular scheduled principal payments made in fiscal year 2017.

# **Santa Cruz County Provisional Community College District**

## **(Santa Cruz Community College)**

### **Management's discussion and analysis**

#### **Year ended June 30, 2017**

Overall, total revenues remained relatively stable as compared to the prior year. Total revenues increased by \$85,465, or 5 percent. Total expenses increased by \$293,404, or 26 percent, mostly because the District hired a chief executive officer in August 2016.

#### General fund budget

The District's actual educational and general expenditures totaled \$1,335,186, which was less than the budgeted amount, mostly because of an increase in enrollment that resulted in increased tuition. Because of this increased tuition, the District paid CC less for contracted educational services than initially anticipated. The District also continues to take a conservative approach with its spending practices.

Additional budgetary information can be found on pages 9 and 10 of this report.

#### Capital assets and debt administration

##### Capital assets

The District's capital assets consist of leasehold improvements (intangible assets) made to the District's leased building space that were necessary to create a suitable environment for providing educational services to its students. For fiscal year 2017, the District did not purchase any capital assets or make any leasehold improvements.

Additional information on the District's leasehold improvements can be found in Note 4 of the notes to financial statements on page 6 of this report.

##### Long-term debt

The District's long-term liabilities consist of contracts payable owed to the landlord because the District agreed to reimburse the landlord for certain leasehold improvements initially paid for by the landlord on the District's behalf. For fiscal year 2017, the District did not enter into any long-term contracts.

Additional information on the District's long-term contracts payable can be found in Note 5 of the notes 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 2017 fiscal year, the District received \$40,931 and expects to continue to receive over \$30,000 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 increased by \$32,200 from the previous year and is expected to increase again during the 2017-2018 fiscal year.

**Santa Cruz County Provisional Community College District  
(Santa Cruz Community College)  
Management's discussion and analysis  
Year ended June 30, 2017**

The District and CC have decided to end their working relationship. The District will enter a new working relationship with Pima County Community College District for the 2017-2018 year. This set of circumstances could result in reduced district enrollment and tuition during this transition period, which could increase expenditures for contracted educational services. 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 will always consider adjustments to tuition as well as continuing 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 Richard Brennan, Chief Fiscal Officer, at (520) 287-5583.

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**Santa Cruz County Provisional Community College District**  
**(Santa Cruz Community College)**  
**Governmental fund balance sheet/statement of net position**  
**June 30, 2017**

	<b>Balance sheet— general fund</b>	<b>Reconciliation (note 6)</b>	<b>Statement of net position— governmental activities</b>
<b>Assets</b>			
Cash in bank	\$ 1,542,908		\$ 1,542,908
Accounts receivable	375		375
Property taxes receivable	247,623		247,623
Prepaid items	72,199		72,199
Capital assets being amortized (net):			
Leasehold improvements		\$ 95,623	95,623
Total assets	<u>1,863,105</u>	<u>95,623</u>	<u>1,958,728</u>
<b>Liabilities</b>			
Accounts payable	25,597		25,597
Due to other governments	359,821		359,821
Unearned revenue	6,188		6,188
Contracts payable:			
Due within 1 year		59,805	59,805
Due in more than 1 year		65,000	65,000
Total liabilities	<u>391,606</u>	<u>124,805</u>	<u>516,411</u>
<b>Deferred inflows of resources</b>			
Unavailable revenue—property taxes	<u>208,648</u>	<u>(208,648)</u>	
Total deferred inflows of resources	<u>208,648</u>	<u>(208,648)</u>	
<b>Fund balance/net position</b>			
Fund balance:			
Nonspendable	72,199	(72,199)	
Unassigned	<u>1,190,652</u>	<u>(1,190,652)</u>	
Total fund balance	<u>1,262,851</u>	<u>(1,262,851)</u>	
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,863,105</u>	<u>(1,346,694)</u>	
Net position:			
Net investment in capital assets		(29,182)	(29,182)
Unrestricted		<u>1,471,499</u>	<u>1,471,499</u>
Total net position		<u>\$ 1,442,317</u>	<u>\$ 1,442,317</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, 2017**

	<u>General fund</u>	<u>Reconciliation (note 6)</u>	<u>Statement of activities— governmental activities</u>
<b>Expenditures/expenses:</b>			
Educational and general	\$ 1,335,186		\$ 1,335,186
Debt service—principal retirement	59,806	\$ (59,806)	
Amortization		95,625	95,625
Total expenditures/expenses	<u>1,394,992</u>	<u>35,819</u>	<u>1,430,811</u>
<b>General revenues:</b>			
Property taxes	1,500,621	29,353	1,529,974
State appropriations	142,600		142,600
Share of state sales taxes	40,931		40,931
Miscellaneous	14,680		14,680
Total general revenues	<u>1,698,832</u>	<u>29,353</u>	<u>1,728,185</u>
Net change in fund balance	303,840	(303,840)	
Change in net position		297,374	297,374
<b>Fund balance/net position:</b>			
July 1, 2016	959,011	185,932	1,144,943
June 30, 2017	<u>\$ 1,262,851</u>	<u>\$ 179,466</u>	<u>\$ 1,442,317</u>

See accompanying notes to financial statements.

**Santa Cruz County Provisional Community College District**  
**(Santa Cruz Community College)**  
**Notes to financial statements**  
**June 30, 2017**

**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 District's (the primary government) activities.

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 Cochise County Community College (CC) entered into an intergovernmental operating agreement under which CC provided educational programs and services to the District from July 1, 2016 through June 30, 2017. The agreement established that CC will provide educational programs; certification of faculty; admission and registration of students; payroll services for CC 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 CC-related functions; access to information relative to enrollments; and payment to adjunct faculty.

The District contracts with CC to provide administrative and instructional personnel. The cost of the personnel compensation and related benefits is paid to CC 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 District's assets, 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. Net investment in capital assets represents the value of capital assets, net of accumulated amortization, less any outstanding debt incurred to acquire or construct the assets. 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.

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



# **Santa Cruz County Provisional Community College District**

## **(Santa Cruz Community College)**

### **Notes to financial statements**

#### **June 30, 2017**

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. Other revenues used for instruction and student services not classified as program revenues, such as property taxes, state appropriations, and share of state sales taxes, 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, which are 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, which are 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, 2017.

#### **D. Leasehold improvements**

Leasehold improvements are reported at actual cost. The capitalization threshold (the dollar value above which leasehold improvements are added to the capital asset records) is \$25,000. Leasehold improvements are classified as intangible assets and amortized using the straight-line method over the shorter of the useful life of the improvement or the remaining lease term.

#### **E. 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.

**Santa Cruz County Provisional Community College District**  
**(Santa Cruz Community College)**  
**Notes to financial statements**  
**June 30, 2017**

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

**F. Deferred inflows of resources**

The balance sheet includes a separate section for deferred inflows of resources. 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.

**G. Fund balance classifications**

The governmental fund's 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 or 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.

**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. A.R.S. does not include any requirements for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District's investments.

**Deposits**—At June 30, 2017, the carrying amount of the District's deposits was \$1,542,908 and the bank balance was \$1,547,877. The District does not have a formal policy with respect to custodial credit risk of deposits.

**Santa Cruz County Provisional Community College District**  
**(Santa Cruz Community College)**  
**Notes to financial statements**  
**June 30, 2017**

**Note 3 - Due to other governments**

At June 30, 2017, the District's due to other governments consisted of \$359,701 due to CC for providing educational programs and services and \$120 due to the City of Nogales for providing services during the year.

**Note 4 – Leasehold improvements**

Leasehold improvement activity for the year ended June 30, 2017, was as follows:

<b>Governmental activities</b>	<b>Balance July 1, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2017</b>
Leasehold improvements	\$ 409,089		\$0	\$ 409,089
Less: accumulated amortization	<u>(217,841)</u>	<u>\$(95,625)</u>	<u>0</u>	<u>(313,466)</u>
Governmental activities leasehold improvements, net	<u>\$ 191,248</u>	<u>\$(95,625)</u>	<u>\$0</u>	<u>\$ 95,623</u>

**Note 5 - Long-term contracts payable**

The District entered into a contract with their landlord effective July 1, 2013, for making leasehold improvements. The contract requires the landlord to pay for leasehold improvement costs of \$190,000 and the District to reimburse the landlord over a 7-year period without interest. The contract requires the District to make annual payments of \$25,000 for the first 6 years, beginning in fiscal year 2014, and a final payment of \$40,000 in year seven. Also, the District entered into a second contract with the landlord in December 2014 for making additional leasehold improvements. This contract requires the landlord to pay for leasehold improvement costs of \$139,223 and the District to reimburse the landlord over a 4-year period without interest. This contract requires the District to make four equal annual payments due on July 1, 2015 and 2016; July 3, 2017; and July 2, 2018. The following schedule details the District's contracts payable activity for the year ended June 30, 2017:

<b>Governmental activities</b>	<b>Balance July 1, 2016</b>	<b>Reductions</b>	<b>Balance June 30, 2017</b>	<b>Due within 1 year</b>
Contracts payable	\$184,611	\$59,806	\$124,805	\$59,805

The following schedule details debt service requirements to maturity for the District's contracts payable at June 30, 2017:

	<b>Governmental activities principal</b>
Year ending June 30,	
2018	\$ 59,805
2019	25,000
2020	<u>40,000</u>
Total	<u>\$124,805</u>

**Santa Cruz County Provisional Community College District**  
**(Santa Cruz Community College)**  
**Notes to financial statements**  
**June 30, 2017**

**Note 6 - Reconciliations**

The reconciliation of the governmental fund balance sheet to the statement of net position at June 30, 2017, was as follows:

Fund balance—governmental fund	\$1,262,851
Amounts reported for governmental activities in the statement of net position are different because:	
Leasehold improvements used in governmental activities are not financial resources and, therefore, are not reported in the fund.	95,623
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the fund.	208,648
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as a liability in the fund.	
Long-term contracts payable	<u>(124,805)</u>
Net position of governmental activities	<u>\$1,442,317</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, 2017, was as follows:

Net change in fund balance—governmental fund	\$303,840
Amounts reported for governmental activities in the statement of activities are different because:	
In the statement of activities, the cost of leasehold improvements are allocated over the shorter of their useful life or the remaining lease term and reported as amortization expense.	
Current-year amortization	(95,625)
Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	
Principal repaid	59,806
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund.	<u>29,353</u>
Change in net position of governmental activities	<u>\$297,374</u>

**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 the Trust pays exceed the members' contributions and reserves in any one year. The District will be charged for any such assessment in the following year.

**Santa Cruz County Provisional Community College District**  
**(Santa Cruz Community College)**  
**Notes to financial statements**  
**June 30, 2017**

**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 expenses under the terms of the operating lease were \$185,628 for the year ended June 30, 2017. The operating lease has a remaining noncancelable term of 1 year (2018) and provides renewal options. The following future minimum payments were required under the operating lease at June 30, 2017:

Year ending June 30	
2018	<u>\$199,908</u>
Total minimum lease payments	<u>\$199,908</u>

**Santa Cruz County Provisional Community College District**  
**(Santa Cruz Community College)**  
**Required supplementary information**  
**Budgetary comparison schedule—general fund**  
**Year ended June 30, 2017**

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes	\$ 1,529,974	\$ 1,529,974	\$ 1,500,621	\$ (29,353)
State appropriations	142,600	142,600	142,600	-
Share of state sales taxes	25,000	25,000	40,931	15,931
Miscellaneous	<u>11,200</u>	<u>11,200</u>	<u>14,680</u>	<u>3,480</u>
Total revenues	<u>1,708,774</u>	<u>1,708,774</u>	<u>1,698,832</u>	<u>(9,942)</u>
<b>Expenditures:</b>				
Educational and general	<u>2,129,116</u>	<u>2,009,097</u>	<u>1,394,992</u>	<u>614,105</u>
Total expenditures	<u>2,129,116</u>	<u>2,009,097</u>	<u>1,394,992</u>	<u>614,105</u>
Net change in fund balance	(420,342)	(300,323)	303,840	604,163
<b>Fund balance:</b>				
July 1, 2016	<u>622,804</u>	<u>622,804</u>	<u>959,011</u>	<u>336,207</u>
June 30, 2017	<u>\$ 202,462</u>	<u>\$ 322,481</u>	<u>\$ 1,262,851</u>	<u>\$ 940,370</u>

See accompanying note to budgetary comparison schedule.

**Santa Cruz County Provisional Community College District  
(Santa Cruz Community College)  
Required supplementary information  
Note to budgetary comparison schedule—general fund  
June 30, 2017**

**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 Cochise County Community College.

# INTERNAL CONTROL/COMPLIANCE REPORT





**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 15, 2018.

**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) to determine the 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and recommendations as item 2017-01, that we consider to be a material weakness.

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

## **Santa Cruz County Provisional Community College District's response to findings**

Santa Cruz County Provisional Community College District's response to the finding identified in our audit is presented in its corrective action plan at the end of this report. The District's response was not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

## **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.

Debbie Davenport  
Auditor General

March 15, 2018



# SCHEDULE OF FINDINGS AND RECOMMENDATIONS

## Financial statement finding

### 2017-01

The District should develop written policies and procedures over its financial operations

**Criteria**—The District should have written policies and procedures to help ensure that transactions are properly recorded, processed, summarized, and accurately reported in accordance with U.S. generally accepted accounting principles (GAAP) in the District's annual financial report that includes its financial statements, note disclosures, and other required information. The District's Governing Board depends on accurate financial statements prepared in accordance with GAAP to fulfill its oversight responsibilities and to report accurate financial information to the public.

**Condition and context**—The District did not have written policies and procedures over its financial operations or accurately compile its annual financial report. As a result, the District's annual financial report contained misstatements that required correction. Specifically, general fund property tax revenues were overstated by \$41,734, and deferred inflows were understated by \$169,101.

**Effect**—The District's financial statements were not initially accurate or prepared in accordance with GAAP. The District adjusted its financial statements to report the correct amounts.

**Cause**—The District lacked comprehensive policies and procedures needed to accurately prepare its annual financial report in accordance with GAAP.

**Recommendation**—To help ensure that the District's annual financial report is accurate and prepared in accordance with GAAP, the District should develop and implement comprehensive written policies and procedures over its financial operations. These policies and procedures should include detailed instructions for processing payroll, cash receipts and disbursements, performing bank reconciliations, making purchases, compiling data from the District's accounting system and obtaining information not readily available from the accounting system but necessary for financial statement preparation.

This finding is similar to prior-year finding 2016-01.



# DISTRICT RESPONSE



**SANTA CRUZ COUNTY  
PROVISIONAL COMMUNITY COLLEGE DISTRICT  
GOVERNING BOARD**

2021 North Grand Avenue. Nogales, AZ 85621. (520) 287-5583. [sc3az.org](http://sc3az.org)

March 7, 2018

Debbie Davenport  
Auditor General  
2910 N. 44th St., Ste. 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

We have prepared the accompanying Corrective Action Plan as required by the standards applicable to financial audits contained in *Government Auditing Standards*. Specifically, for each finding, we are providing you with the corrective action planned, the names of the contact people responsible for corrective action, and the anticipated completion date.

Sincerely,

Richard Brennan  
Chief Financial Officer

## Financial Statement Finding

2017-01

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The District should develop written policies and procedures over its financial operations

Name of contact person(s): Richard Brennan

Anticipated completion date: June 30<sup>th</sup>, 2018

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The district has hired a financial consultant to help the district develop written policies and procedures over its financial operations. The policies have all been drafted and will be fully implemented by the anticipated completion date. The procedures will be written in accordance with U.S. generally accepted accounting principles (GAAP).

