



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statements and Report on Internal Control and
on Compliance

Santa Cruz County Provisional Community College District

(Santa Cruz Community College)
Year Ended June 30, 2011



Debra K. Davenport
Auditor General

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Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Financial Statements and Report on Internal Control and on Compliance
Year Ended June 30, 2011

Table of Contents	Page
Independent Auditors' Report	
Management's Discussion and Analysis	i
Governmental Fund Balance Sheet/Statement of Net Assets	1
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities	2
Notes to Financial Statements	3
Required Supplementary Information	
Budgetary Comparison Schedule—General Fund	9
Note to Budgetary Comparison Schedule—General Fund	10
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 <i>Government Auditing Standards</i>	11

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Santa Cruz County Provisional Community College District

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Santa Cruz County Provisional Community College District as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through iv and the Budgetary Comparison Schedule—General Fund on pages 9 and 10 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

February 11, 2013

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Management's Discussion and Analysis
Year Ended June 30, 2011

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, 2011. 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 body. 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 Assets 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 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, 2010 through June 30, 2011. 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.

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Management's Discussion and Analysis
Year Ended June 30, 2011

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.

Condensed Financial Information

The financial information in the *Statement of Net Assets* on page 1 reflects the District's assets, liabilities, and net assets. The *Statement of Activities* on page 2 presents the District's operations. Over time, increases or decreases in net assets 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 assets and the changes in net assets for the year ended June 30, 2011.

Net Assets
As of June 30, 2011

Assets:	
Current assets	<u>\$270,901</u>
Total assets	<u>270,901</u>
Liabilities:	
Current liabilities	<u>266,201</u>
Total liabilities	<u>266,201</u>
Net Assets:	
Unrestricted	<u>4,700</u>
Total net assets	<u>\$ 4,700</u>

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Management's Discussion and Analysis
Year Ended June 30, 2011

Total assets at the year-end consist of cash in bank of \$235,323 and property taxes receivable of \$35,578. The total liabilities of \$266,201 represent current obligations for educational and general expenditures.

*Changes in Net Assets
For the Year Ended June 30, 2011*

Expenses:	
Educational and general	<u>\$409,946</u>
Total expenses	<u>409,946</u>
Revenues:	
General revenues:	
Property taxes	287,629
Santa Cruz County contract contributions	126,983
Other	<u>34</u>
Total general revenues	<u>414,646</u>
Total revenues	<u>414,646</u>
Change in net assets	4,700
Net assets:	
Beginning	<u>-</u>
Ending	<u>\$ 4,700</u>

Fiscal year 2011 was the first year of operations for the District, thus no financial data is available for analysis and comparison of significant variances relative to assets, liabilities, net assets, revenues, and expenses. A comparative analysis for all of the financial statements will be performed in future years when comparative data are available.

General Fund Budget

The District's actual educational and general expenditures were \$119,730 less than budgeted amounts because of management's cost effective approach to spending. The actual revenues were \$145,480 less than budgeted amounts because county contributions were \$114,464 less than anticipated. The County's current year contribution amount included a one-time reimbursement from Cochise College to the County and that reimbursement was less than anticipated. In addition, property tax revenues were \$30,450 less than budgeted because tax receipts were collected later than anticipated.

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

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Management's Discussion and Analysis
Year Ended June 30, 2011

Current Factors Having Probable Future Financial Significance

Proposition 301 monies are given to provisional community colleges to use for workforce development activities. The District expects to receive this money in the near future, which will help offset district expenses.

The current budget crisis in the Arizona State Legislature will likely result in the District's receiving few state appropriations for future years.

Requests 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 Jennifer K. St. John, Chief Fiscal Officer, at (520) 375-7820.

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Governmental Fund Balance Sheet/Statement of Net Assets
June 30, 2011

	Balance Sheet— General Fund	Reconciliation (Note 4)	Statement of Net Assets— Governmental Activities
	<u> </u>	<u> </u>	<u> </u>
Current assets			
Cash in bank	\$ 235,323		\$ 235,323
Property taxes receivable	35,578		35,578
Total assets	<u>\$ 270,901</u>		<u>270,901</u>
 Current liabilities			
Due to other governments	\$ 266,201		266,201
Deferred revenue	30,450	\$ (30,450)	-
Total liabilities	<u>296,651</u>	<u>(30,450)</u>	<u>266,201</u>
 Fund deficit/Net assets			
Fund deficit:			
Unassigned	<u>(25,750)</u>	<u>25,750</u>	
Total fund deficit	<u>(25,750)</u>	<u>25,750</u>	
Total liabilities and fund deficit	<u>\$ 270,901</u>	<u>(4,700)</u>	
 Net assets:			
Unrestricted		<u>4,700</u>	<u>4,700</u>
Total net assets		<u>\$ 4,700</u>	<u>\$ 4,700</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, 2011

	<u>General Fund</u>	<u>Reconciliation (Note 4)</u>	<u>Statement of Activities— Governmental Activities</u>
Expenditures/Expenses:			
Educational and general	\$ 409,946		\$ 409,946
Total expenditures/expenses	<u>409,946</u>		<u>409,946</u>
 General revenues:			
Property taxes	257,179	\$ 30,450	287,629
Santa Cruz County contract contributions	126,983		126,983
Other	<u>34</u>		<u>34</u>
Total general revenues	<u>384,196</u>	<u>30,450</u>	<u>414,646</u>
 Net change in fund balance	(25,750)	25,750	
Change in net assets		4,700	4,700
 Fund deficit/Net assets:			
July 1, 2010	<u>-</u>		<u>-</u>
June 30, 2011	<u>\$ (25,750)</u>	<u>\$ 30,450</u>	<u>\$ 4,700</u>

See accompanying notes to financial statements.

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Notes to Financial Statements
June 30, 2011

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).

For the year ended June 30, 2011, the District implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosures requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

A. Reporting Entity

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District (the primary government).

Because Santa Cruz County Provisional Community College 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 agreement and operating agreement under which CC provides educational programs and services to the District from July 1, 2010 through June 30, 2011. 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.

District personnel are not directly employed by the District. The staff is directly employed by CC. The cost of the personnel compensation and related benefits is paid to CC through an intergovernmental agreement.

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Notes to Financial Statements
June 30, 2011

B. Basis of Presentation and Accounting

The basic financial statements include the Governmental Fund Balance Sheet/Statement of Net Assets 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 Assets provides information about the assets, liabilities, and fund balance/net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy district obligations. Invested in capital assets represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Unrestricted net assets include all other net assets, including those that have been designated by management 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 as either program or general, and all changes in net assets are reported. Generally, revenues generated by the District 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, such as property taxes, Santa Cruz County contract contributions, state appropriations, and investment earnings, 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, government grants and contracts, and investment earnings. Expenditures are recorded when the related fund liability is incurred.

The government-wide financial statements, the Statement of Net Assets 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 in the year in which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Notes to Financial Statements
June 30, 2011

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

C. Cash and Investments

The District's cash consists of demand deposits. The District had no investments at June 30, 2011.

D. Capital Assets

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Equipment	\$5,000	Straight-line	5 years
Vehicles	\$5,000	Straight-line	5 years

The District had no capital assets at June 30, 2011.

E. Property Tax Revenues

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.

F. Fund Balance Classifications

Fund balance of the governmental fund is reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. 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.

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Notes to Financial Statements
June 30, 2011

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations.

The unrestricted fund balance category is comprised of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the District's Governing Board, which is the highest level of decision-making authority. The constraints placed on committed fund balances can be removed or changed by only the Governing Board.

Assigned fund balances are resources constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The Governing Board makes assignments of resources for a specific purpose.

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 and Investments

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

Deposits—At June 30, 2011, the carrying amount of the District's deposits and the bank balance was \$235,323. The District does not have a formal policy with respect to custodial credit risk for deposits.

Note 3 - Due To Other Governments

At June 30, 2011, the District had reported a total amount due to CC of \$266,201 for providing educational programs and services during the year.

Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Notes to Financial Statements
June 30, 2011

Note 4 - Reconciliations

The reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets at June 30, 2011, was as follows:

Fund deficit—governmental fund	\$(25,750)
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the fund.	<u>30,450</u>
Net assets of governmental activities	<u>\$ 4,700</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, 2011, was as follows:

Net change in fund balance—governmental fund	\$(25,750)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.	<u>30,450</u>
Change in net assets of governmental activities	<u>\$ 4,700</u>

Note 5 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates 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, automobile, boiler and machinery, and commercial crime 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 6 - Intergovernmental Agreement

The District and Santa Cruz County entered into an intergovernmental agreement under which the District agrees to a budget of \$287,629 based on anticipated property tax revenue for fiscal year 2011 and maintain the same property tax rate for fiscal years 2011 through 2013. If the district revenues generated or received from its tax levy fall short of \$287,629 for fiscal years 2011 through 2013, the County agrees to assist the District financially.

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Santa Cruz County Provisional Community College District
(Santa Cruz Community College)
Required Supplementary Information
Budgetary Comparison Schedule—General Fund
Year Ended June 30, 2011

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Property taxes	\$ 287,629	\$ 257,179	\$ (30,450)
Santa Cruz County contract contributions	241,447	126,983	(114,464)
Miscellaneous	<u>600</u>	<u>34</u>	<u>(566)</u>
Total revenues	<u>529,676</u>	<u>384,196</u>	<u>(145,480)</u>
Expenditures:			
Educational and general	<u>529,676</u>	<u>409,946</u>	<u>119,730</u>
Total expenditures	<u>529,676</u>	<u>409,946</u>	<u>119,730</u>
 Net change in fund deficit	 -	 (25,750)	 (25,750)
Fund deficit:			
July 1, 2010	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2011	<u>\$ -</u>	<u>\$ (25,750)</u>	<u>\$ (25,750)</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, 2011

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 since all costs are paid through the agreement with Cochise County Community College.



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
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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 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, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 11, 2013. 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.

Internal Control over Financial Reporting

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, and others within the District and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

February 11, 2013



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

Financial Statements and Report on Internal Control
and on Compliance
Year Ended June 30, 2011

State of Arizona
Office of the Auditor General