



Santa Cruz County

PROVISIONAL COMMUNITY COLLEGE DISTRICT

AT THE SANTA CRUZ CENTER

Annual Financial Report

2025



Fiscal Year
Ended June 30, 2025

Santa Cruz County Provisional Community College District
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June 30, 2025

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ARIZONA AUDITOR GENERAL

Lindsey A. Perry, 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 audit of the financial statements

Opinions

We have audited the accompanying financial statements of the governmental activities and General Fund of the Santa Cruz County Provisional Community College District (District) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2025, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for opinions

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 U.S. Comptroller General. Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's responsibilities for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, we:

- ▶ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ▶ Obtain an understanding of internal control relevant to the audit 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.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ▶ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the audit's planned scope and timing, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required supplementary information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 8, budgetary comparison schedule—General Fund on page 23, schedule of the District's proportionate share of the net pension liability on page 24 and schedule of District pension contributions on page 25 be presented to supplement the basic financial statements. Such information is management's responsibility and, 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 September 30, 2026, 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

Lindsey A. Perry, CPA, CFE
Auditor General

September 30, 2026

Santa Cruz County Provisional Community College District

Management's discussion and analysis

Year ended June 30, 2025

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, 2025. 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, 2020 through June 30, 2021, and has subsequently been renewed through June 30, 2030.

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

Management's discussion and analysis

Year ended June 30, 2025

Condensed Financial Information

The financial information in the statement of net position on page 9 reflects the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The following table summarizes the District's net position for the years ended June 30, 2025 and 2024.

	2025	2024	Change
Assets			
Current assets	\$7,538,099	\$6,738,843	\$799,256
Non-current assets	\$909,254	\$1,230,540	\$(321,286)
Total Assets	\$8,447,353	\$7,969,383	\$477,970
Deferred Outflows of Resources	\$33,896	\$19,815	\$14,081
Liabilities			
Current liabilities	\$620,143	\$609,008	\$11,135
Non-current liabilities	\$849,021	\$1,123,349	\$(274,328)
Total liabilities	\$1,469,164	\$1,732,357	\$(263,193)
Deferred Inflows of Resources	\$36,987	\$113,209	\$(76,222)
Net Position			
Net investment in capital assets	\$(97,094)	\$(67,174)	\$(29,920)
Restricted	\$5,294	\$4,795	\$499
Unrestricted	\$7,066,898	\$6,206,011	\$860,887
Total Net Position	\$6,975,098	\$6,143,632	\$831,466

Santa Cruz County Provisional Community College District

Management's discussion and analysis

Year ended June 30, 2025

The statement of activities on page 10 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 table summarizes changes in net position for the years ended June 30, 2025 and 2024.

	2025	2024	Change
General Revenues			
Property taxes	\$1,780,874	\$1,778,201	\$2,673
State appropriations	\$443,884	\$556,183	\$(112,299)
Share of state sales taxes	\$66,988	\$64,037	\$2,951
Miscellaneous	\$57,888	\$70,917	\$(13,029)
Investment income	\$314,054	-	\$314,054
Lease revenue	\$20,159	-	\$20,159
Total General Revenues	\$2,683,847	\$2,469,338	\$214,509
Expenditures/Expenses			
Education and general	\$1,551,062	\$1,082,031	\$469,031
Amortization	\$301,319	\$301,319	-
Total Expenditures/Expenses	\$1,852,381	\$1,383,350	\$469,031
Change in Net Position	\$831,466	\$1,085,988	\$(254,522)
Net Position, Beginning of Year	\$6,143,632	\$5,057,644	\$1,085,988
Net Position, End of Year	\$6,975,098	\$6,143,632	\$831,466

Santa Cruz County Provisional Community College District

Management's discussion and analysis

Year ended June 30, 2025

Significant Variances

For the fiscal year ended June 30, 2025, the fifteenth year of operations for the District, the financial data presented above is provided for analysis and comparison of significant variances relative to assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. The following discussion addresses the most significant of those variances.

Overall, total assets increased by \$477,970 or 6.00 percent and total liabilities decreased by \$263,193 or 15.19 percent. The variance in deferred outflows and inflows of resources are primarily due to pension related items.

- The significant net increase in total assets was primarily due to an increase in current assets. These assets increased largely due to an increase in investment income.
- The net decrease in total liabilities was mainly caused by a decrease in lease liability.

Overall, total general revenues increased by \$214,509 or 8.69 percent primarily due to recognition of investment income of \$314,054. Total expenses increased by \$469,031 or 33.91 percent mainly from an increase in general and educational expenses. The most notable variance occurred within the Educational Intergovernmental Agreement (IGA) as the District expanded its contracted instructional programs and academic service commitments with Pima Community College (PCC). Also, employment-related expenses increased due to higher staffing levels, wage adjustments, increased benefit costs, and required employer retirement contributions. The District hired a CEO on August 2024 and PCC hired a full-time writing instructor.

Total net position increased by \$831,466, or 13.53 percent to \$6,975,098 at June 30, 2025. Net position consists of unrestricted net position of \$7,066,898, a negative \$97,094 net investment in capital assets, and \$5,294 related to net OPEB amounts held in trust.

General Fund Budget

The District's actual General Fund expenditures were \$1,897,806, which were \$35,168 less than the original budgeted amount but equal to the final budgeted amount. On the revenue side, property taxes were \$16,157 below budget and miscellaneous revenues were \$247,192 below budget, offset by state appropriations exceeding budget by \$313,884 and share of state sales taxes of \$66,988, for which no amount was budgeted.

Additional operating variances reflect targeted investments in technology and infrastructure. IT equipment and related upgrades increased significantly, including a new allocation for system improvements. Insurance premiums increased due to updated coverage needs. A new hiring consultant allocation was added to assist with program expansion efforts.

Overall, the variances reflect the District's continued growth and its commitment to expanding educational offerings, strengthening administrative capacity, and investing in technology and facilities necessary to meet evolving community needs.

Additional budgetary information can be found on page 23 of this report.

Santa Cruz County Provisional Community College District

Management's discussion and analysis

Year ended June 30, 2025

Right-to-Use Assets and Long-term Liabilities

At June 30, 2025, the District had right-to-use assets, net of accumulated amortization, of \$903,960. The District's long-term liabilities consist primarily of pension obligations, compensated absences, and lease liabilities. See Notes 4 and 5 for additional information.

Current Factors Having Probable Future Financial Significance

Looking ahead, several operational and programmatic developments are expected to influence District's financial position. The District is actively expanding its workforce and career-focused program offerings in response to community needs and regional labor market demands. A new cohort of the Electrician program began in FY25-26. New programs such as Advanced Industrial Technology (AIT), Medical Assistance (MA) and Emergency Medical Technician (EMT) are launching during FY26-27.

In addition, the District was awarded a \$200,000 USDA grant dedicated to Heavy Equipment training and a new Bookkeeping Certificate program. Regardless of being a grant, both programs will further increase instructional activity and other associated costs. These program expansions signal continued growth in student demand and will likely result in higher future expenditures related to educational services, staffing support, facilities usage, and technology infrastructure. Management continues to monitor enrollment trends, workforce development needs in the community, and the availability of state and federal funding sources to ensure the District maintains a stable financial footing while meeting expanded program commitments.

Request for Information

This financial report is designed to provide citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate accountability for public resources received. Questions concerning this report or requests for additional financial information should be directed to the District's Chief Fiscal Officer.

Santa Cruz County Provisional Community College District
Governmental fund balance sheet / statement of net position
June 30, 2025

	Balance Sheet— General Fund	Reconciliation (Note 7)	Statement of Net Position— Governmental Activities
ASSETS			
Current Assets:			
Cash in bank	\$ 2,278,173		\$ 2,278,173
Investments	4,814,054		4,814,054
Property taxes receivable, net	334,629		334,629
Prepaid items	89,723		89,723
Lease receivable, current portion	21,520		21,520
Total Current Assets	<u>7,538,099</u>	<u>-</u>	<u>7,538,099</u>
Non-Current Assets:			
Right-to-use assets, net		903,960	903,960
Net OPEB Assets		5,294	5,294
Total Non-Current Assets	<u>-</u>	<u>909,254</u>	<u>909,254</u>
TOTAL ASSETS	<u>7,538,099</u>	<u>909,254</u>	<u>8,447,353</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to OPEB		1,559	1,559
Deferred outflows related to pensions		32,337	32,337
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>33,896</u>	<u>33,896</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,538,099</u>	<u>\$ 943,150</u>	<u>\$ 8,481,249</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	186,605		186,605
Due to other governments	123,365		123,365
Compensated absences, current portion	9,237		9,237
Lease liability - current portion		300,936	300,936
Total Current Liabilities	<u>319,207</u>	<u>300,936</u>	<u>620,143</u>
Non-Current Liabilities:			
Compensated absences, non-current portion		11,290	11,290
Lease liability, non-current portion		700,118	700,118
Net pension/OPEB liability		137,613	137,613
Total Non-Current Liabilities	<u>-</u>	<u>849,021</u>	<u>849,021</u>
TOTAL LIABILITIES	<u>319,207</u>	<u>1,149,957</u>	<u>1,469,164</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue—property taxes	307,222	(307,222)	
Deferred inflows related to leases	21,520		21,520
Deferred inflows related to OPEB		2,501	2,501
Deferred inflows related to pensions		12,966	12,966
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>328,742</u>	<u>(291,755)</u>	<u>36,987</u>
FUND BALANCE:			
Nonspendable	89,723	(89,723)	
Unassigned	6,800,427	(6,800,427)	
Total fund balance	<u>6,890,150</u>	<u>(6,890,150)</u>	<u>-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>7,538,099</u>		
NET POSITION			
Net investment in capital assets		(97,094)	(97,094)
Restricted			
Net OPEB asset held in trust		\$ 5,294	\$ 5,294
Unrestricted		<u>\$ 7,066,898</u>	<u>\$ 7,066,898</u>
TOTAL NET POSITION		<u>\$ 6,975,098</u>	<u>\$ 6,975,098</u>

See accompanying notes to financial statements.

Santa Cruz County Provisional Community College District
Statement of governmental fund revenues, expenditures, and
changes in fund balance/statement of activities
Year ended June 30, 2025

	General Fund	Reconciliation (Note 7)	Statement of Activities— Governmental Activities
GENERAL REVENUES			
Property taxes	\$ 1,779,215	\$ 1,659	\$ 1,780,874
State appropriations	443,884		443,884
Share of state sales taxes	66,988		66,988
Miscellaneous	57,888		57,888
Investment Income	314,054		314,054
Lease Revenue	20,159		20,159
TOTAL GENERAL REVENUES	2,682,188	\$ 1,659	\$ 2,683,847
EXPENDITURES/EXPENSES			
Educational and general	1,626,407	(75,345)	1,551,062
Debt service - principal retirement	271,399	(271,399)	
Amortization		301,319	301,319
TOTAL EXPENDITURES/EXPENSES	1,897,806	(45,425)	1,852,381
CHANGE IN FUND BALANCE	784,382	(784,382)	
CHANGE IN NET POSITION		831,466	831,466
Fund balance/net position:			
July 1, 2024	6,105,768	37,864	6,143,632
June 30, 2025	\$ 6,890,150	\$ 84,948	\$ 6,975,098

See accompanying notes to financial statements.

Santa Cruz County Provisional Community College District

Notes to financial statements

June 30, 2025

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, 2025, the District implemented the provisions of GASB Statement No. 101, Compensated Absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The adoption of GASB Statement No. 101 did not result in any material adjustments to the District's previously reported amounts and thus a restatement of beginning net position was not deemed necessary.

The District evaluated the provisions of GASB Statement No. 102, Certain Risk Disclosures, which establishes financial reporting requirements for risks due to certain concentrations and constraints. The District evaluated concentrations in revenue sources as well as constraints that could affect the availability of resources. Based on this evaluation, management determined that the District did not have any concentrations or constraints that meet the criteria for disclosure under GASB Statement No. 102.

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, 2020, through June 30, 2021, which was subsequently renewed through June 30, 2030. 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.

Santa Cruz County Provisional Community College District

Notes to financial statements

June 30, 2025

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.

Net Position

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. Net investment in capital assets represents the value of capital assets, net of accumulated depreciation/amortization, less any outstanding liabilities incurred to acquire or construct the assets. Unrestricted net position consists of all other resources, including those that management has designated to be used for anything other than general operating purposes.

Revenues and Expenditures/Expenses

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 2024-25. 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.

Santa Cruz County Provisional Community College District

Notes to financial statements

June 30, 2025

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 in Bank and Investments

The District's cash in bank consists of demand deposits. The District also holds investments in the Arizona State Treasurer's Local Government Investment Pool (LGIP), which are considered short-term investments and are stated at fair value.

D. Property Taxes

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 of 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.

E. Pension and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension and OPEB liability/(asset), deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense/(benefit), 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.

F. 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 non-spendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

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.

Santa Cruz County Provisional Community College District

Notes to financial statements

June 30, 2025

G. Compensated Absences

Compensated absences payable consists of personal leave full-time employees earned based on services already rendered. Employees may accumulate up to 320 hours of leave, but they forfeit any unused 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 benefits to employees. Therefore, all earned personal leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Accordingly, personal leave benefits are accrued as a liability in the financial statements.

H. Leases and Right-to-Use Assets

As lessee, the District recognizes lease liabilities with an initial, individual value of \$5,000 or more. The District uses its estimated incremental borrowing rate to measure lease liabilities unless it can readily determine the interest rate implicit in the lease. The District's estimated incremental borrowing rate is based on the prime loan rate per the Federal Reserve website.

As lessor, the District recognizes lease receivables with an initial, individual value of \$5,000 or more. If there is no stated rate in the lease contract and the implicit rate cannot be determined, the District uses its own estimated incremental borrowing rate as the discount rate to measure lease receivables. The District's estimated incremental borrowing rate is calculated as described above.

Right-to-use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease asset into service. Right-to-use assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the District has determined is reasonably certain of being exercised--then the lease asset is amortized over the useful life of the underlying asset.

I. Investment Earnings

Investment earnings are composed of interest and net changes in the fair value of applicable investments.

Note 2 – Cash in Bank and Investments

The District does not have a formal policy with respect to custodial credit risk of deposits. However, 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.

Cash in Bank - At June 30, 2025, both the carrying amount of the District's cash in bank and the bank balance was \$2,278,173.

Santa Cruz County Provisional Community College District

Notes to financial statements

June 30, 2025

Custodial credit risk - Custodial credit risk is the risk that the District will not be able to recover its deposits if a financial institution fails. The District does not have a formal policy regarding custodial credit risk. None of the District's bank balance was exposed to custodial credit risk.

Investments - At June 30, 2025, the fair value of the District's share of the State Treasurer's Local Government Investment Pool 5 and 7 was \$4,814,054. Investments in the State Treasurer's investment pools are valued at the pool's share price multiplied by the number of shares the District held. The fair value of a participant's position in the pools approximates the value of that participant's pool shares. The State Board of Investment provides oversight for the State Treasurer's investment pools.

Credit risk - Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The District does not have a formal investment policy regarding credit risk. At June 30, 2025, credit risk for the District's investments was as follows:

Investment type	Rating	Rating agency	Amount
State Treasurer's Investment Pool 5	AAAf/S1+	Standard & Poor's	\$2,407,825
State Treasurer's Investment Pool 7	Unrated	Not applicable	2,406,229
Total			<u>\$4,814,054</u>

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The District does not have a formal policy regarding interest rate risk.

At June 30, 2025, the District had the following investments:

Investment type	Amount	Weighted average maturity (years)
State Treasurer's Investment Pool 5	\$2,407,825	0.10
State Treasurer's Investment Pool 7	<u>2,406,229</u>	0.07
	<u>\$4,814,054</u>	

Note 3 – Lease Receivable

The District's lease receivable is measured at the present value of lease payments expected to be received during the lease term. Under the lease agreement, the District may receive variable lease payments that are dependent upon the lessee's revenue. Any variable payments not fixed in substance are recorded as an inflow of resources in the period the payment is received.

The District, as lessor, entered into one lease, to provide space to other educational entities. In accordance with GASB Statement No. 87, the District records lease receivables and deferred inflows of resources based on the present value of expected receipts over the term of the respective lease. The expected receipts are discounted using the District's incremental borrowing rate. Any variable payments are excluded unless fixed in substance.

During the year ended June 30, 2025, the District recognized revenues related to these lease agreements

Santa Cruz County Provisional Community College District
Notes to financial statements
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totaling \$20,159. The District does not have any lease revenue related to variable receipts that were not previously included in the measurement of the lease receivable.

Note 4 – Right-to-Use Assets

The right-to-use assets by major class of underlying lease assets and the associated activity for the year ended June 30, 2025, was as follows:

Right-to-Use Assets	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
Leased building	\$2,109,236			\$2,109,236
Total Right-to-Use Assets	\$2,109,236	-	-	\$2,109,236
Less: Accumulated Amortization Leased building				
	\$903,957	\$301,319		\$1,205,276
Total Accumulated Amortization	\$903,957	\$301,319	-	\$1,205,276
Right-to-Use Assets, Net	\$1,205,279	\$(301,319)	-	\$ 903,960

Note 5 - Long-term Liabilities

The following schedule details the District's long-term liability activity for the year ended June 30, 2025:

Governmental activities	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025	Due within One year
Compensated absences	\$ 13,376	\$7,151		\$ 20,527	\$ 9,237
Lease liability	1,272,453		\$271,399	1,001,054	300,936
Net pension liability	144,015		6,402	137,613	
Total Long-term Liabilities	\$1,429,844	\$7,151	\$277,801	\$1,159,194	\$310,173

Lease Liability

The District, as lessee, has obtained the right-to-use educational service facilities. This agreement was made in April 2013 (the "Lease"), by and between the District (the "Tenant"), and Theta Properties, LLC (the "Landlord"). In May 2023, the District extended the lease for an additional five years through 2028.

Future minimum lease payments to maturity for the District's lease liability at June 30, 2025 are as follows:

Year Ending June 30	Principal	Interest	Total
2026	\$ 300,936	\$ 57,955	\$ 358,891
2027	332,838	36,819	369,658
2028	367,280	13,467	380,747
Total	\$1,001,054	\$108,241	\$1,109,296

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Note 6 - Pension and Other Postemployment Benefits (OPEB)

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:

	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, 2025, statute required active ASRS members to

Santa Cruz County Provisional Community College District

Notes to financial statements

June 30, 2025

contribute at the actuarially determined rate 12.12 percent for retirement of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 12.05 percent for retirement of the active members' annual covered payroll. In addition, the District was required by statute to contribute at the actuarially determined rate of 10.14 percent for retirement 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, 2025, were \$24,656.

Net Pension Liability

At June 30, 2025, the District reported a net pension liability of \$137,613 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2024. 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, 2023, to the measurement date of June 30, 2024. The District's proportion of the net pension 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, 2024, and the change from its proportions measured as of June 30, 2023. The District's proportion measured as of June 30, 2024, was 0.00086 percent. This represents a decrease of 0.00003 from the previous year.

Pension Expense/(Benefit)

For the year ended June 30, 2025, the District recognized pension expense/(benefit) for ASRS of \$(54,039).

Deferred Outflows/Inflows of Resources

At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$7,681	
Difference between projected and actual investment earnings		\$8,788
Changes in proportion and differences between employer contributions and proportionate share of contributions		4,178
District contributions subsequent to the measurement date	24,656	
Total	\$32,337	\$12,966

Santa Cruz County Provisional Community College District

Notes to financial statements

June 30, 2025

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 ended June 30, 2026. Other amounts reported as deferred outflows of resources related to ASRS pensions will be recognized as expenses as follows:

Year ending June 30	Deferred Outflows/(Inflows) of Resources
2026	\$(6,623)
2027	5,176
2028	(2,225)
2029	(1,613)
Total	<u>\$(5,285)</u>

Actuarial Assumptions

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

ASRS

Actuarial valuation date	June 30, 2023
Actuarial roll forward date	June 30, 2024
Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Projected salary increases	2.9–8.4%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

The long-term expected rate of return on ASRS plan investments was determined to be 7.0 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 rates of return by the target asset allocation percentage and by adding expected inflation.

Santa Cruz County Provisional Community College District

Notes to financial statements

June 30, 2025

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset class	Target Asset Allocation	Long Term Expected Geometric Real Rate of Return
Public Equity	44%	4.48%
Credit	23%	4.40%
Real Estate	17%	6.05%
Private Equity	10%	6.11%
Interest Rate Sensitive	6%	(0.45)%
Total	100%	

Discount Rate

The discount rate used to measure the ASRS total pension liability was 7.0 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 7.0 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 (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net pension liability	\$210,714	\$137,613	\$76,690

Plan Fiduciary Net Position

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

Santa Cruz County Provisional Community College District
Notes to financial statements
June 30, 2025

Note 7 - Reconciliations

The reconciliation of the governmental fund balance sheet to the statement of net position at June 30, 2025, was as follows:

Fund balance—governmental fund		\$6,890,150
Amounts reported for governmental activities in the statement of net position are different because:		
Right-to-use assets, net of accumulated amortization, used in governmental activities are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the fund:		903,960
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the fund:		307,222
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund:		
Net pension liability	(137,613)	
Lease liability	(1,001,054)	
Compensated absences, non-current portion	(11,290)	(1,149,957)
Deferred outflows and inflows of resources related to pension and OPEB are applicable to future reporting periods and, therefore, are not reported in the fund:		
Deferred outflows related to OPEB	1,559	
Deferred outflows related to pension	32,337	
Deferred inflows related to OPEB	(2,501)	
Deferred inflows related to pension	(12,966)	18,429
Net OPEB assets held in trust for future benefits are not available for District operations and, therefore, are not reported in the fund:		5,294
Net position of governmental activities		<u>\$6,975,098</u>

Santa Cruz County Provisional Community College District

Notes to financial statements

June 30, 2025

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, 2025, was as follows:

Change in fund balance—governmental fund		\$784,382
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:		1,659
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		271,399
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of intangible right-to-use lease assets is allocated over the shorter of the lease term or the useful life of the underlying asset and reported as amortization expense:		(301,319)
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)/decrease in compensated absences		(3,933)
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	24,656	
Pension/OPEB expense	54,622	79,278
Change in net position of governmental activities		<u>\$831,466</u>

Note 8 - 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. (Trust), 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.

Santa Cruz County Provisional Community College District
Budgetary comparison schedule—General Fund
Year ended June 30, 2025

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
REVENUES				
Property taxes	\$ 1,795,372	\$ 1,795,372	\$ 1,779,215	\$ (16,157)
State appropriations	130,000	130,000	443,884	313,884
Share of state sales taxes			66,988	66,988
Miscellaneous	305,080	305,080	57,888	(247,192)
Investment income			314,054	314,054
Lease revenue			20,159	20,159
TOTAL REVENUES	2,230,452	2,230,452	2,682,188	451,736
EXPENDITURES				
Educational and general	1,932,974	1,897,806	1,897,806	
TOTAL EXPENDITURES	1,932,974	1,897,806	1,897,806	
NET CHANGE IN FUND BALANCE	297,478	332,646	784,382	451,736
FUND BALANCE, JULY 1, 2024	12,470	374,046	6,105,768	5,731,722
FUND BALANCE, JUNE 30, 2025	\$ 309,948	\$ 706,692	\$ 6,890,150	\$ 6,183,458

See accompanying notes to required supplementary information.

Santa Cruz County Provisional Community College District
Schedule of the District's proportionate share of the net pension liability
June 30, 2025

ASRS-Pension	Reporting Fiscal Year (Measurement date)					
	2025 (2024)	2024 (2023)	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)
District's proportion of the net pension liability	0.00086%	0.00089%	0.00091%	0.00224%	0.00268%	0.00237%
District's proportionate share of the net pension liability	\$137,613	\$144,015	\$148,532	\$294,326	\$464,351	\$344,863
District's covered payroll	\$119,132	\$125,422	\$112,806	\$243,987	\$292,515	\$124,812
District's proportionate share of the net pension liability as a percentage of its covered payroll	115.51%	114.82%	131.67%	120.63%	158.74%	276.31%
Plan fiduciary net position as a percentage of the total pension liability	76.93%	75.47%	74.26%	78.58%	69.33%	73.24%

*The remaining 4 years of required data are not available as the District only began participating in the plan during fiscal year 2019.

See accompanying notes to required supplementary information.

Santa Cruz County Provisional Community College District
Schedule of District pension contributions
June 30, 2025

ASRS-Pension	Reporting Fiscal Year		
	2025	2024	2023
Statutorily required contribution	\$ 24,656	\$ 14,458	\$ 13,891
District's contributions in relation to the statutorily required contribution	<u>(24,656)</u>	<u>(14,458)</u>	<u>(13,891)</u>
District's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 204,614	\$ 119,132	\$ 125,422
District's contributions as a percentage of covered payroll	12.05%	12.14%	11.08%

	Reporting Fiscal Year			
	2022	2021	2020	2019
Statutorily required contribution	\$ 13,030	\$ 29,376	\$ 33,493	\$ 13,954
District's contributions in relation to the statutorily required contribution	<u>(13,030)</u>	<u>(29,376)</u>	<u>(33,493)</u>	<u>(13,954)</u>
District's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 112,806	\$ 243,987	\$ 292,515	\$ 124,812
District's contributions as a percentage of covered payroll	11.55%	12.04%	11.45%	11.18%

*The remaining 3 years of required data are not available as the District only began participating in the plan during fiscal year 2019.

See accompanying notes to required supplementary information.

Santa Cruz County Provisional Community College District

Note to required supplementary information

June 30, 2025

Note 1 – Purpose of Schedules

Budgetary Comparison Schedule – General Fund

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.

Schedule of the District's Proportionate Share of the Net Pension Liability

The Schedule of the District's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the District's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Schedule of District Pension Contributions

The Schedule of the District's Pension Contributions is presented to illustrate the District's required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.