SANTA CRUZ COUNTY PROVISIONAL COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT AND REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

JUNE 30, 2022

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CWDL

INDEPENDENT AUDITORS' REPORT

Members of the Arizona State Legislature

The Arizona Auditor General

The Governing Board of
Santa Cruz County Provisional Community College District

Report on Audit of 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 (the District) as of and for the year ended June 30, 2022, 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, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Santa Cruz County Provisional Community College 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2022, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement (GASB) No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 misstatements, 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 one year 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 an auditors' 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 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 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, no such opinion is expressed.
- 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 planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information section, as listed in the Table of Contents, 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 auditing standards generally accepted in the United States of America, 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 June 25, 2024, 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, 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.

CWDL, Certified Public Accountants

Mesa, Arizona
June 25, 2024

INTRODUCTION

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, 2022. 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, which was subsequently renewed through June 30, 2026. The agreement established that PCC will provide educational programs; faculty certification; student admission and registration; PCC employee payroll services; academic records and transcripts; access to student information; financial aid counseling, processing, and distribution; student employment; curriculum and master schedule development; information technology services; tuition and credit course fee collection; cashiering for PCC-related functions; access to information relative to enrollments; and payment to adjunct faculty.

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

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 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 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, 2021 and 2022.

Net Position
As of June 30, 2022 and 2021

	June 30, 2022	June 30, 2021	Increase / (Decrease)
Assets:			
Current assets	$ 4,503,256	$ 3,549,901	$ 953,355
Noncurrent assets	1,878,246	-	1,878,246
Total assets	**6,381,502**	**3,549,901**	**2,831,601**
Deferred ouflows	**72,231**	**219,741**	**(147,510)**
Liabilities:			
Current liabilities	311,245	157,558	153,687
Long-term liabilities	1,854,700	472,586	1,382,114
Total liabilities	**2,165,945**	**630,144**	**1,535,801**
Deferred inflows	**218,004**	**4,279**	**213,725**
Net position:			
Net investment in capital assets	(32,767)	-	(32,767)
Unrestricted	4,102,551	3,135,219	967,332
Total net position	**$ 4,069,784**	**$ 3,135,219**	**$ 934,565**

CONDENSED FINANCIAL INFORMATION, continued

Changes in Net Position
For the Years Ended June 30, 2022 and 2021

	June 30, 2022	June 30, 2021	Increase / (Decrease)
Expenses:			
Education and general	$ 840,920	$ 1,579,395	$ (738,475)
Amortization	301,319	-	301,319
Total expenses	**1,142,239**	**1,579,395**	**(437,156)**
Revenues:			
General revenues:			
Property taxes	1,727,085	1,704,243	22,842
State appropriations	294,702	125,152	169,550
Share of state sales taxes	33,910	32,755	1,155
Miscellaneous	21,107	53,068	(31,961)
Total revenues	**2,076,804**	**1,915,218**	**161,586**
Change in net position	**934,565**	**335,823**	**$ 598,742**
Net position:			
Beginning	3,135,219	2,799,396	
Ending	**$ 4,069,784**	**$ 3,135,219**	

SIGNIFICANT VARIANCES

For the fiscal year ended June 30, 2022, the twelfth year of operations for the District, the financial data presented above is for analysis and comparison of significant variances relative to assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

Overall, total assets increased by $2,831,601 or 79.8 percent and total liabilities increased by $1,535,801 or 243.7 percent. The variances in deferred outflows and inflows of resources are primarily due to the changes of assumptions in actuarial estimates related to the net pension and OPEB liabilities and the implementation of GASB 87.

- The significant increase in total assets and total liabilities was primarily due to implementation of GASB 87, which added financial reporting of lease related assets totaling $1,878,246 and liabilities of $1,840,684. See notes 3-5 for additional information.

SIGNIFICANT VARIANCES, continued

Overall, total revenues remained relatively stable as compared to the prior year. Total general revenues increased by $161,586 or 8.4 percent primarily due to the state appropriation increases of $169,550, property taxes of $22,842, offset primarily by a decrease in miscellaneous revenues of $31,961. Total expenses decreased by $437,156 or 27.7 percent mostly due to payroll expenses.

GENERAL FUND BUDGET

The District's actual General Fund expenditures were $996,075 which were $775,799 less than the original budgeted amount but equal to the final budgeted amount. The District also continues to take a conservative approach with its spending practices. The current situation with COVID-19 has forced our educational provider and the District itself to reduce expenses.

Additional budgetary information can be found on page 22 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
At June 30, 2022, the District had capital assets representing the intangible right-to-use lease assets, net, of $1,807,917 due to implementation of GASB 87. See notes 3-5 for additional information.

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

Additional information on the District's long-term liabilities can be found in Note 5 to Financial Statements on page 16 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 2022 fiscal year, the District received $33,910 and expects to receive a similar amount in the upcoming year.

Smart & Safe AZ Fund monies are distributed to provisional colleges since the passing of Proposition 207 in the November 2020 election. For the 2022 fiscal year, the District received $10,706. The state legislature forecasts that this revenue will increase annually for the first 3 years, which will have a positive effect on the revenues the District collects.

Operating State Aid and Rural Aid to the District for the current year was $153,000. The state budgeted an appropriation of $17,100 and $153,000 respectively during the 2021-2022 fiscal year. The STEM and Workforce Programs State Aid received for the current year was $49,900 and is expected to increase slightly in the upcoming year. 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.

CURRENT FACTORS HAVING PROBABLE FUTURE FINANCIAL SIGNIFICANCE, continued

The District extended its working relationship with Pima Community College through 2026. Enrollment had continued to decline since the onset of COVID-19. These circumstances will impact the expenditure limit in a negative way in future years. The District will continue its mission of providing outstanding educational services to our constituencies at affordable prices and monitor any external economic changes and their impacts on the District. As in previous years, the District plans to keep its tax levy at the maximum without a truth-in-taxation hearing. The District does not have any impact on adjustments to tuition. Nevertheless, the District continues to explore additional cost saving measures.

REQUEST FOR INFORMATION

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

FINANCIAL SECTION

SANTA CRUZ COUNTY PROVISIONAL COMMUNITY COLLEGE DISTRICT
GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET POSITION
JUNE 30, 2022

	Balance Sheet General Fund	Reconciliation (Note 7)	Statement of Net Position Governmental Activities
Assets			
Current Assets:			
Cash in bank	$ 4,185,159	$ -	$ 4,185,159
Property taxes receivable	318,097	-	318,097
Total Current Assets	4,503,256	-	4,503,256
Noncurrent Assets:			
Lease receivable	70,329	-	70,329
Capital Assets:			
Right-to-use lease assets, net	-	1,807,917	1,807,917
Total Noncurrent Assets	70,329	1,807,917	1,878,246
Total Assets	**4,573,585**	**1,807,917**	**6,381,502**
Deferred Outflows of Resources			
Pension and other postemployment benefits	-	72,231	72,231
Total Deferred Outflows of Resources	**-**	**72,231**	**72,231**
Total Assets and Deferred Outflows of Resources	**$ 4,573,585**	**$ 1,880,148**	**$ 6,453,733**
Liabilities			
Accounts payable	$ 3,517	$ -	$ 3,517
Due to other governments	17,600	-	17,600
Unearned revenue	3,784	-	3,784
Compensated absences payable:			
Due within one year	7,547	-	7,547
Due in more than one year	-	9,224	9,224
Net pension and other postemployment benefits liability:			
Due in more than one year	-	283,589	283,589
Lease liability:			
Due within one year	-	278,797	278,797
Due in more than one year	-	1,561,887	1,561,887
Total Liabilities	**32,448**	**2,133,497**	**2,165,945**
Deferred Inflows of Resources			
Unavailable revenue - property taxes	278,114	(278,114)	-
Leases	70,123	-	70,123
Pension and other postemployment benefits	-	147,881	147,881
Total Deferred Inflows of Resources	**348,237**	**(130,233)**	**218,004**
Fund Balance			
Unassigned	4,192,900	(4,192,900)	-
Total Fund Balance	**4,192,900**	**(4,192,900)**	**-**
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	**$ 4,573,585**		
Net Position			
Net investment in capital assets		(32,767)	(32,767)
Unresticted		2,294,634	4,102,551
Total Net Position		**$ 2,261,867**	**$ 4,069,784**

SANTA CRUZ COUNTY PROVISIONAL COMMUNITY COLLEGE DISTRICT
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE / STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund	Reconciliation (Note 7)	Statement of Activities Governmental Activities
Expenditures/Expenses			
Educational and general	$ 727,523	$ 113,397	$ 840,920
Debt service - principal payments	268,552	(268,552)	-
Amortization	-	301,319	301,319
Total Expenditures/Expenses	**996,075**	**146,164**	**1,142,239**
General Revenues:			
Property taxes	1,725,167	1,918	1,727,085
State appropriations	294,702	-	294,702
Share of state sales taxes	33,910	-	33,910
Miscellaneous	21,107	-	21,107
Total General Revenues:	**2,074,886**	**1,918**	**2,076,804**
Net change in fund balance	1,078,811	(1,078,811)	-
Change in net position	-	934,565	934,565
Fund Balance/Net Position:			
July 1, 2021	3,114,089	21,130	3,135,219
June 30, 2022	**$ 4,192,900**	**$ (123,116)**	**$ 4,069,784**

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).

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, 2026. 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.

Basis of Presentation and Accounting

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

The governmental fund balance sheet/statement of net position provides information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance/net position of the District at the end of the year. Assets and liabilities are presented by relative order of liquidity. Net position is classified according to external donor restrictions or availability of assets to satisfy district obligations. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

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 2022. Other revenues used for instruction and student services, such as property taxes, state appropriations, and share of state sales taxes, not classified as program revenues are considered to be general revenues.

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

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

The government-wide financial statements, the statement of net position, and the statement of activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year in which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

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

Cash in Bank

The District's cash in bank consists of demand deposits. The District had no investments at June 30, 2022.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Postemployment Benefits

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

Fund Balance Classifications

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

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.

Compensated Absences

Compensated absences payable consists of personal leave full-time employees earned based on services already rendered. Employees may accumulate up to 384 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. Accordingly, leave benefits are accrued as a liability in the financial statements.

Leases

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Leases, continued

Right-to-use lease 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 into service. Intangible right-to-use lease 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.

New Accounting Pronouncements

GASB issued Statement No. 87 – Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after June 15, 2021. The District has implemented GASB Statement No. 87 for the year ended June 30, 2022. Changes adopted conform to the provisions of this Statement and are effective from July 1, 2021 forward. As a result, the District's financial statements have been modified to reflect the implementation of this new standard.

NOTE 2 – CASH IN BANK AND 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.

At June 30, 2022, both the carrying amount of the District's deposits and the bank balance was $4,185,159. The District does not have a formal policy with respect to custodial credit risk of deposits.

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 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, 2022, the District recognized revenues related to this lease agreement totaling $10,749. During the year ended June 30, 2022, 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 – INTANGIBLE RIGHT-TO-USE LEASE ASSETS

The amount of lease assets by major class of underlying assets and the associated activity for the year ended June 30, 2022, was as follows:

	Adjusted Balance July 1, 2021*	Additions	Deductions	Balance June 30, 2022
Intangible Right-to-Use Lease Assets:				
Leased building	$ 2,109,236	$ -	$ -	$ 2,109,236
Total Intangible Right-to-Use Assets	2,109,236	-	-	2,109,236
Less Accumulated Amortization:				
Leased building	-	301,319	-	301,319
Total Accumulated Amortization	-	301,319	-	301,319
Total Intangible Right-to-Use Assets, net	$ 2,109,236	$ (301,319)	$ -	$ 1,807,917

*Due to the implementation of GASB Statement No. 87 for leases, the Districts's beginning leased asset balance was restated from fiscal year 2021. There was no impact to net position.

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the District's long-term liability activity for the year ended June 30, 2022:

Governmental activities	Adjusted Balance July 1, 2021*	Additions	Reductions	Balance June 30, 2022	Due within 1 year
Compensated absences payable	$ 14,761	$ 2,010	$ -	$ 16,771	$ 7,547
Lease liability	2,109,236	-	268,552	1,840,684	278,797
Net pension/OPEB liability	464,467	-	180,878	283,589	-
Total long-term governmental activities	$ 2,588,464	$ 2,010	$ 449,430	$ 2,141,044	$ 286,344

*Due to the implementation of GASB Statement No. 87 for leases, the Districts's beginning leased liability balance was restated from fiscal year 2021. There was no impact to net position.

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 Santa Cruz Provisional Community College 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 leases payable at June 30, 2022 are as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2023	$ 278,797	$ 49,631	$ 328,428
2024	289,434	42,222	331,656
2025	300,476	41,128	341,604
2026	311,940	39,912	351,852
2027	323,841	38,571	362,412
2028	336,196	37,088	373,284
Total	$ 1,840,684	$ 248,552	$ 2,089,236

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

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

Benefits Provided

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

	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 consecutve 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.

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS, continued

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, 2022, statute required active ASRS members to contribute at the actuarially determined rate 12.22 percent for retirement of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 12.01 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 10.13 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, 2022, were $13,030.

Liability

At June 30, 2022, the District reported a net pension liability of $294,326 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2021. 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, 2020, to the measurement date of June 30, 2021. The total liabilities as of June 30, 2021, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2020, including decreasing the discount rate from 7.5 percent to 7.0 percent and changing the projected salary increases from 2.7–7.2 percent to 2.9–8.4 percent. The District's proportion of the net liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2021. The District's proportion measured as of June 30, 2021, was 0.00224%. This represents a decrease of .00044 from the previous year.

Expense

For the year ended June 30, 2022, the District recognized pension expense for ASRS of ($124,417).

Deferred Outflows/Inflows of Resources

At June 30, 2022, 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 projected and actual experience	$ 4,487	$ -
Changes of assumptions or other inputs	38,309	-
Net difference between projected and actual investment earnings on plan investments	-	93,253
Changes in proportion and differences between district contributions and proportionate share of contributions	14,520	44,678
District contributions subsequent to the measurement date	13,030	-
Total	$ 70,346	$ 137,931

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS, continued

Deferred Outflows/Inflows of Resources, continued

The amounts reported as deferred outflows of resources related to ASRS pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources related to ASRS pensions will be recognized as expenses as follows:

Year Ended June 30,		Deferred Outflows/(Inflows) of Resources
2023	$	(7,816)
2024		(20,106)
2025		(20,557)
2026		(32,136)
Total	$	(80,615)

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS, continued

Actuarial Assumptions

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

Actuarial valuation date	June 30, 2020
Actuarial roll forward date	June 30, 2021
Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Projected salary increase	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, 2020 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.

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS, continued

Actuarial Assumptions, continued

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
Equity	50%	4.90%
Fixed Income - Credit	20%	5.20%
Fixed Income - Interest Rate Sensitive	10%	0.70%
Real Estate	20%	5.70%
Total	100%	

Discount Rate

At June 30, 2021, the discount rate used to measure the ASRS total pension/OPEB liability was 7.0 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2020. 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	$ 462,950	$ 294,326	$ 153,740

Plan Fiduciary Net Position

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

NOTE 7 – RECONCILIATIONS

The reconciliation of the governmental fund balance sheet to the statement of net position at June 30, 2022, was as follows:

Fund balance - governmental fund		$ 4,192,900
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.		
Right-to-use lease assets, net	1,807,917	
		1,807,917
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the fund		278,114
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund:		
Net pension/OPEB liability	(283,589)	
Lease liability	(1,840,684)	
Compensated absences payable	(9,224)	
		(2,133,497)
Deferred outflows and inflows of resources related to pension/OPEB are applicable to future reporting periods and, therefore, are not reported in the fund:		
Deferred outflows of resources related to pension/OPEB	72,231	
Deferred inflows of resources related to pension/OPEB	(147,881)	
		(75,650)
Net position of governmental activities		**$ 4,069,784**

NOTE 7 – RECONCILIATIONS, continued

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, 2022, was as follows:

Net change in fund balance - governmental fund		$ 1,078,811
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.		1,918
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		268,552
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 in compensated absences		(3,419)
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	13,514	
Pension/OPEB expense	(123,492)	
		(109,978)
Change in net position of governmental activities		**$ 934,565**

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., 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.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA CRUZ COUNTY PROVISIONAL COMMUNITY COLLEGE DISTRICT
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Property taxes	$ 1,727,085	$ 1,727,085	$ 1,725,167	$ (1,918)
State appropriations	15,000	15,000	294,702	279,702
Share of state sales taxes	30,000	30,000	33,910	3,910
Miscellaneous	11,693	11,693	21,107	9,414
Total revenues	**1,783,778**	**1,783,778**	**2,074,886**	**291,108**
Expenditures:				
Educational and general	1,503,322	727,523	727,523	-
Debt service - principal payments	268,552	268,552	268,552	-
Total expenditures	**1,771,874**	**996,075**	**996,075**	**-**
Net change in fund balance	11,904	787,703	1,078,811	291,108
Fund balance (deficit):				
July 1, 2021	(450,423)	(450,423)	3,114,089	3,564,512
June 30, 2022	**$ (438,519)**	**$ 337,280**	**$ 4,192,900**	**$ 3,855,620**

SANTA CRUZ COUNTY PROVISIONAL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2022

ASRS-Pension	Reporting Fiscal Year (Measurement Date)		
	2022 (2021)	2021 (2020)	2020 (2019)
District's proportion of the net pension liability	0.00224%	0.00268%	0.00237%
District's proportionate share of the net pension liability	$ 283,589	$ 464,351	$ 344,863
District's covered payroll	$ 243,987	$ 292,515	$ 124,812
District's proportionate share of the net pension liability as a percentage of its covered payroll	116.23%	158.74%	276.31%
Plan fiduciary net position as a percentage of the total pension liability	78.58%	69.33%	73.24%

**The remaining 7 years of requires data are not available as the District only began participating in the plan during fiscal year 2019.*

SANTA CRUZ COUNTY PROVISIONAL COMMUNITY COLLEGE DISTRICT
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
JUNE 30, 2022

ASRS - Pension	**Reporting Fiscal Year**			
	2022	**2021**	**2020**	**2019**
Statutory required contribution	$ 13,030	$ 29,376	$ 33,493	$ 13,954
District's contributions in relation to the statutory required contribution	(13,030)	(29,376)	(33,493)	(13,954)
Dsitrict's contribution deficiency (excess)	$ -	$ -	$ -	$ -
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 6 years of requires data are not available as the District only began participating in the plan during fiscal year 2019.*

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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 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.

OTHER INDEPENDENT AUDITORS' REPORTS

CWDL

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Arizona State Legislature

The Arizona Auditor General

The Governing Board of
Santa Cruz County Provisional Community College District

We have audited, in accordance with auditing standards generally accepted in the United States of America 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 (the District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 25, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

CWDL, Certified Public Accountants

Mesa, Arizona
June 25, 2024